DUE DILIGENCE

A REPORT ON THE BANK OF CANADA'S HANDLING OF FOREIGN GOLD DURING WORLD WAR II

prepared for the Bank of Canada
by

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Due Diligence

A Report on the Bank of Canada's Handling of Foreign Gold During World War II

Summary/Sommaire

CONTEXT

The issue of "Nazi gold" has galvanized the Western world since 1995. Through a conjuncture of activism on the part of the World Jewish Congress and American Senator Alfonse D'Amato, chair of the Senate Banking Committee, the long-unresolved issue of where an alleged US$580 million in gold looted by the Axis during World War II went has come to life with a vengeance. Much of this gold had been plundered during the early stages of the war from the vaults of European central banks that had fallen under the heel of the German army. A portion of this monetary gold — state-owned gold used to support a country's monetary operations — had been recaptured by the Allies in the dying months of the war and repatriated to its rightful owners. A greater portion, however, proved untraceable, largely because it had been laundered by means of surreptitious refining and transfer to banks in the neutral countries of Europe — Switzerland, Portugal and Sweden. Much of the trade in looted gold supported Germany's acquisition of foreign raw materials and equipment to run its war machine. By the end of the war, therefore, much of this looted gold was in fact in the hands of neutral countries.

The question of looted gold had other dimensions. There was a significant amount of non-monetary gold — gold plundered from individuals caught in the trap of war — mingled with the looted monetary gold. Most worrisome was evidence that some of this non-monetary gold was stripped from the Jewish victims of Nazi death camps. This sinister gold had also passed through the mill of Nazi refining and had been filtered through bank accounts and commercial transactions with European neutral banks. These same banks also became the focus of another financial legacy of the war: the issue of dormant bank accounts and so-called "heirless assets." As appeasement failed in the late 1930s, many Europeans, principally German Jews, sought some financial insurance in the face of the impending conflict by placing some or all of their assets in bank accounts in safe-haven countries like Switzerland. The appalling extermination inflicted upon these same people by the

Holocaust made the postwar restitution and disposition of these assets a problematic process, especially given the secretiveness of the initial deposits and the cocoon of secrecy that the Swiss banking system erected around foreign accounts.

In the late stages of the war, the Allies made a concerted attempt to locate and repatriate gold looted by the Axis. Declarations were issued warning of the consequences of trading or taking possession of looted gold and, as peace neared, more active efforts were launched to actually reclaim "Nazi gold." The American Safehaven program spearheaded this campaign. Much of the attention fell on Switzerland. The Swiss central bank, the Banque Nationale Suisse, had bought more gold from the Germans than any other country. The Swiss had also acted as Germany's principal trade conduit to non-Axis economies. And Switzerland's commercial banks had also commanded a near-monopoly on safe-haven bank accounts held by victims of the war and with the return of peace these banks found themselves under pressure to restore deposits to their legal owners. Emerging beside this negotiation was the thorny issue of "heirless assets," the disposition of assets for which there now appeared to be no living claimant. Through the late 1940s, Allied governments, principally those of the United States, Britain and France, therefore engaged in prolonged negotiations with the European neutral powers that had maintained financial ties with the Axis. Some restitution of gold was made to the central banks of once-occupied countries. Some distribution of "heirless assets" was made to stateless refugees. But much of the looted gold remained elusive, and the rights of account holders and heirs of personal accounts in neutral banks were by and large overlooked by Allied negotiators. By the early 1950s, emerging new issues of European and Cold War diplomacy tended to shunt the issue of looted gold to the sidelines of big-power statecraft.

The end of the Cold War in the early 1990s, the crumbling of the East Bloc and the determination of the World Jewish Congress to bring justice to some of the long-suffering Jewish community all combined in 1995 to reignite interest in the question of looted gold and dormant bank accounts. Once again, Switzerland was the fulcrum of the debate. The tone of the controversy was set by a powerful mixture of politics, morality and history. After a brief and disastrous reprise of denial and obfuscation by Switzerland's bankers, the universal response to the issue has become one of inquiry and restitution. The means to this end has largely been historical investigation. Formal historical commissions have been active in Switzerland, Portugal, Sweden, Britain and the United States. These commissions have focused not only on the wartime activities of central and commercial bankers, but also on the broader picture of Allied and Axis diplomacy and war bureaucracy. Archives have been scoured, evidence taken and reports produced — most noticeable to date has been the mammoth Eizenstat report produced by the American government at President Clinton's behest. The process of restitution has also begun. The Swiss Bankers' Association has finally begun a thorough identification of dormant bank accounts on the books of its members, thereby allowing long-frozen assets

to be reunited with their rightful owners.

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Through all the initial postwar investigations and the more recent rebirth of the "Nazi gold" issue, the word "Canada" has practically never surfaced. Canada played no active role in the late 1940s negotiations with European neutrals, nor did its name ever surface in connection with the trade in looted gold. The massive Eizenstat report issued by the American government earlier this year does not contain a single mention of Canada in connection with the issue of looted gold, despite the survey of over 15 million documents in reaching its conclusions. In July 1997 the silence over Canada's role broke abruptly. A document retrieved by World Jewish Congress researchers in Washington gave rise to the allegation, based on an anonymous late-war intelligence report "from a very confidential source," that the Bank of Canada had been party, by means of paper transfer, to a complex gold transfer involving six tons of gold shuffled between Switzerland and Portugal in 1942. Later in the war, the document alleged, this same gold became part of a second questionable swap between Portugal and Sweden with Canada's central bank again playing the role of intermediary. In a letter forwarding this document and its incriminating allegation to Bank of Canada Governor Gordon Thiessen on July 11, 1997, the Canadian Jewish Congress echoed the opinion of the World Jewish Congress that the gold transfers involving the Bank looked like a "classic money-laundering operation." The Canadian Jewish Congress therefore asked that the Bank of Canada "undertake an investigation to ascertain the involvement of the Bank in these transactions."

The Bank of Canada immediately acquiesced, announcing not only that a thorough internal investigation would be undertaken but also that an outside historian would be asked to complete an independent analysis of the Bank's role in the wartime movement of gold. On August 12, I began this investigation. My mandate was both wide-ranging and unfettered. I was to review all the Bank of Canada's documents related to gold transactions during the period from the founding of the Bank in 1935 through 1950 and to have unconditional access to the Bank's archives and personnel. Since the Department of Finance was also party to the wartime gold transfers in question, Minister of Finance Paul Martin issued similar assurances that the investigation would meet with the unreserved cooperation of his department. The investigation was to culminate in a public report that was "to respond to public concern about possible Bank of Canada involvement in transactions related to looted 'Nazi gold' during and after the Second World War" and at the same time advise the Bank on "the appropriate way to make the records [of the Bank] accessible to other researchers." Under these terms, I commenced the research underlying this report.

METHODOLOGY

This report is rooted in an intensive archival survey of all documents relating to gold transfers facilitated by the Bank of Canada in World War II. The archival search extended well beyond the Bank of Canada into the records of federal government departments and offices that had a role, however remote, in the gold transfers in question. Papers of prominent politicians and senior bureaucrats were also consulted. Oral interviews were conducted with retired Bank of Canada officials who might possibly have had recollections of the Bank's wartime operations. While the project's principal objective was to supply the Canadian perspective on these transfers, a concerted effort was made to contact the European central banks that were party to these transactions and to collect opinions and documents on their roles in these events. To this end, detailed inquiries were submitted to the Bank of England, the Banque Nationale Suisse, the Banco de Portugal and the Sveriges Riksbank in Stockholm. Full and willing cooperation was received from all these bodies and the historical commissions now working on their national investigations into the issue of Nazi gold. The following conclusions can be drawn about the documentary record supporting this report.

The Reliability of the Source Material Used in this Report

- A very complete record of the Bank of Canada's role as a wartime safe-keeper of foreign gold exists. The documents reflect the expected thoroughness of a central banker. There are virtually no gaps in the record.
- This record is fully complemented by documents in the archives of other federal agencies, notably the Department of Finance, which played a subsidiary role in policy vis-à-vis the safekeeping of foreign gold in Ottawa.
- There is no evidence whatsoever of document tampering. There is one possible departure in record-keeping practice that led to a gap in the file covering the Bank of England's large wartime account in Ottawa. The gap can, however, be closed by drawing evidence from other document series.
- The documentary record of the contentious gold swaps of 1942-45 involving Switzerland, Portugal and Sweden through the Bank of Canada reveals absolutely no departure in procedure (e.g., legal transfer documents, gold export permits) from other non-contentious gold accounts.
- . There is ample evidence that the Bank of Canada has in the years since World War II devoted considerable energy to the systematic retention of its records.
- Original documentation obtained from the Bank of England, the Banque Nationale Suisse, Banco de Portugal and Sveriges Riksbank all tends to confirm the Bank of Canada's documentary record of the events surrounding the swaps of 1942-45.
- There is a striking absence of marginalia, unusual

commentary or other written signs of anxiety in the records concerning these transfers, indicating that they were not viewed in an unusual light by the Canadian participants.

- Records of senior officials at the Bank of Canada as well as those of prominent Canadian politicians and bureaucrats reveal no undue concern over the swaps in question (e.g., the W.L.M. King diaries or the papers of Finance Minister J.L. Ilsley).
- The Bank of Canada has accompanied this research with a massive effort to reconstruct its gold ledgers (i.e., the ledgers used to record all gold entering and leaving the Bank's vault) for the years 1935-56. This work is largely complete and will eventually give the Bank the ability to track the majority of gold bars that physically arrived and left the Bank during these years. A statistical synopsis of this reconstruction is appended to this report.
- A finding aid listing all the documents consulted in the course of this research is available upon request from the Bank of Canada. Some of these documents are already in the public domain (e.g., at the National Archives of Canada), others are still within controlled archives.
- This report endorses the Bank of Canada's determination to make all the documents consulted during the course of this research available for public consultation. This process is well under way, but cannot proceed any quicker than the provisions of Canada's Access to Information and Privacy Acts dictate. The principle of client confidentiality has necessitated the seeking of permission for the release of documents from the European central banks discussed in this report.

FINDINGS

- During World War II, Canada played a major role in the earmarking of foreign gold for safekeeping at the Bank of Canada. Between the first rumblings of war in 1938 and peace in 1945, foreign central banks deposited 2,586 tons of gold in Ottawa for safekeeping. For many nations that had fallen under German occupation, this cache of safe gold was the ultimate guarantee of national survival. In particular, the central banks of Belgium, the Netherlands, France, Norway and Poland availed themselves of this unique type of Canadian wartime hospitality. The Bank of England was also a frequent earmarker of gold in Ottawa and in the dark days of 1940 even made plans to create a "shadow" Bank of England in Ottawa that could draw upon Britain's gold cache in Canada. Such deposits involved no profit for Canada beyond small handling charges.
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almost exclusively one-way. Large amounts of gold crossed the Atlantic in the early war period, especially from the Bank of England and the Banque de France. After 1941, virtually no more gold arrived from Europe, with the exception of a shipment of 525 bars from the Bank Polski in London in 1944. During the course of the war, virtually none of the gold stored in Ottawa was shipped back across the Atlantic, with the exception of two small shipments of gold coin returned to England in 1942. All the transactions in question in this report were paper transfers of gold ownership between one central bank account at the Bank of Canada and other central bank accounts. There is therefore no possibility that tainted gold — gold looted by Germany — ever found its way into the Canadian gold stream.

- The 1942-43 transfer of Bank of England gold earmarked in Ottawa to the Ottawa earmark account of the Banque Nationale Suisse involved 56 tons of gold, a small fraction of the overall wartime deposit of foreign gold in Ottawa. This gold was swapped for Swiss francs delivered to the British in Switzerland. This swap was necessitated by Britain's desperate need for Swiss francs to maintain its trade and diplomatic relationship with Switzerland and was entered into reluctantly by the Swiss. Switzerland already had large quantities of gold stockpiled beyond its borders in London and New York, but this was blocked and of no wartime use to Switzerland. The Swiss accepted the deal only as a pro tem. measure in the hope of keeping stalled trade negotiations with the British alive.

- To safeguard the gold that had passed from Allied hands to neutral hands under earmark in Ottawa, the Bank of Canada altered the minimal prewar arrangements for foreign gold deposited in Canada to reflect the exigencies of war. The primary concern was that the 56 tons of gold held by Switzerland in Ottawa might find its way back to Europe and ultimately be applied to the ends of the Axis. These conditions stipulated that the gold received by the Banque Nationale Suisse from the Bank of England might be physically exported only to other central banks in the Western Hemisphere or transferred on paper to central banks in the Western Hemisphere and to the central banks of European neutral countries — namely Portugal, Sweden and Spain. These conditions were to apply until the end of hostilities. The Swiss agreed to these conditions.

- The Bank of Canada's willingness to facilitate such swaps was strongly conditioned by its relationship with the Bank of England. Canada was one of the last Western powers to create a central bank and, since its inauguration in 1935, the Bank of Canada had relied heavily on the guidance of the Bank of England. This relationship was epitomized by the close personal friendship of Bank of Canada Governor Graham Towers and Bank of England Governor Montagu Norman. The Bank of England was, for instance, the first foreign

account in Ottawa. Similarly, the Bank of Canada's first deputy governor was seconded from the Bank of England in 1935. While Towers was never oblivious to protecting Canada's interests, there was an almost filial inclination to respond to England's bidding. This would precondition the Bank of Canada's positive response to Britain's request to facilitate the gold-for-francs swap with Switzerland and other European gold exchanges involving Canada.

- The 1942 gold-for-francs swap had been preceded by another request from the Bank of England in September 1940. Confronted with an influx of small holdings of gold deposited in English commercial banks by Europeans anxious for the safety of their wealth and well-being, the British asked the Bank of Canada to earmark these deposits of personal gold under the umbrella of its own Ottawa accounts. This was a departure from usual earmark procedure in that it allowed foreign individuals the prerogative of the security of an earmark account well beyond the fray in Europe. Control of the deposits remained in the hands of the Bank of England. A handling charge of 5% of each individual's gold was imposed by the Bank of England and the depositor had to sign an agreement acknowledging that the gold would not be released until after the war, except in extraordinary circumstances approved by the Bank of England. During the course of September 1940 to June 1941, 155 of these so-called "sundry persons" deposits of personal gold at the Bank of England were included in shipments to the Bank of Canada from London. The total deposit was the equivalent of 1,315 bars of gold. Many of the depositors appear — by name and testimonial — to have been European Jewish refugees who had fled their homelands in the early stages of the war. They were generally well-to-do and had left their homelands early enough to avoid the Holocaust. Other deposits appear to have been made by Swiss and other nationals. A small number of the depositors — 34 sundry persons — were able to convince the Bank of England to release their gold in Ottawa before the end of the war. The remaining deposits were all closed after the war without incident or complication. The last deposit was closed in 1955.

- Almost as soon as the process of swapping English gold for Swiss francs had begun in the spring of 1942, the Banque Nationale Suisse [BNS] began seeking ways to apply the gold it was accumulating in Ottawa to its domestic needs at home, principally the building up of internal gold reserves as a check on Swiss inflation. This desire was limited by the conditions set on the earmark account by the Bank of Canada. An initial attempt to establish Swiss commercial bank accounts in Ottawa and thereby open the way for transfers between off-shore central bank and commercial bank accounts was blocked by vigilant officials at the Bank of Canada. In the wake of this decision, Governor Towers informed the general managers of Canada's chartered banks that it was the government's wish that they stop opening new gold safekeeping accounts for non-residents and to report any future requests for such services to Ottawa. Rebuffed in this direction, the BNS began negotiations

with the Banco de Portugal, which had gold accounts with it in Switzerland. In two equal transactions in April and May 1942, the BNS subsequently traded four tons of its earmarked gold in Canada for a similar amount of gold held by the Portuguese earmarked in its vault in Switzerland. Thus, the Swiss succeeded in obtaining the free use of four tons of gold in Switzerland in return for surrendering four tons of assuredly clean gold in Canada. To achieve this swap, the BNS was obliged to pay a steep commission to the Banco de Portugal of 1 1/2% on the first swap and 2 1/2% on the second swap. These commissions reflected the fact that the gold Portugal was obtaining in Ottawa was blocked for the duration of the war. In the wake of these swaps, the BNS board of directors decided to abandon the tactic of offering gold in Ottawa for gold in Europe because the transaction costs were exorbitant. The crucial question of whether the Portuguese gold released to the Swiss was tainted gold of German origin is elucidated by reference to classified British wartime documents drawn from British intercept of cables between the Swiss and Portuguese central banks and from banking records recently released by the Banco de Portugal. These reveal that, while the Banco de Portugal did receive large amounts of Reichsbank gold into its BNS accounts, the gold transferred to the Swiss in 1942 was generally believed to be drawn from an account "thought to be without German taint." There is no absolute assurance that this swapped gold was beyond all possible taint, but this evidence and the complete absence of any indication of concern on the part of Allied bankers involved in the swap indicate that this was likely the case. Once again, national liquidity needs, not schemes to launder dirty German gold, seemed to drive the transaction.

- In 1944, Portugal itself encountered liquidity problems in its trade with Switzerland and Sweden. Increasingly unable to trade in gold because of the tightening Allied injunctions on looted gold, Portugal was driven to finance its trade with hard currencies like the Swiss franc and the Swedish krona. By August, the value of the Portuguese escudo was plummeting against the franc and the krona. Both the Swiss and Swedish proved reluctant to accept Portuguese offers of gold-for-currency swaps. In desperation, the Banco de Portugal therefore offered the Sveriges Riksbank, Sweden's central bank, clean gold in Ottawa in exchange for kronor. This offer of a ton and a half of gold in September and October of 1944 was accepted by the Swedes on the condition that the Portuguese applied the resultant kronor to the process of Swedish-Portuguese trade alone. Subsequently, the Sveriges Riksbank and the Banco de Portugal agreed to ease Portugal's ongoing exchange needs by using the swapping of gold earmarked in Ottawa back and forth to provide kronor for Lisbon. By the end of this process in September 1945, the Sveriges Riksbank had accumulated two and a half tons of gold previously owned by the Banco de Portugal in Ottawa.

- One last gold swap rounded out the Bank of Canada's role in gold transfers between neutral European central banks. In the midst of its swaps with the Sveriges Riksbank in September 1944, the Banco de Portugal

swapped another two tons of its gold in gold holdings in Switzerland for Swiss gold held in Ottawa. As in 1942, the gold in Switzerland was taken from Portugal's untainted account. This time, Portugal received a smaller commission of only 3/8%, probably because it saw the advantage of topping up its Ottawa reserve of gold at a time when its newly made agreement with Sweden might have required more gold if the escudo's exchange value had continued to deteriorate.

- With the lifting of all conditions restraining foreign gold on earmark in Ottawa after the war, there was no rush by neutral central banks to clear out their accounts in Ottawa. In fact, all parties to the wartime swaps maintained their Ottawa earmarks well into the peace, often increasing their balances.

- Throughout all these transactions, officials at the Bank of Canada, usually in consultation with officials at the Department of Finance and the Bank of England, exhibited due diligence in handling these transfer requests from Europe. The context of the times must be borne in mind. These transactions took place at the height of the war, when the pressures of wartime decision-making bore heavily on Ottawa's mandarins. These gold swaps between friendly and neutral central banks constituted fleeting decisions in a myriad of wartime challenges and must be seen in this light. By and large, the decisions taken around Canada's custodianship of foreign gold earmarked in the Bank of Canada conform to the stereotype of the cautious, deliberate and well-balanced demeanour of the senior bureaucrats who have come to be known by history as the "Ottawa men." They never possessed the absolute knowledge or the power to eliminate any possibility that Ottawa might facilitate the movement of looted gold, but their instincts led them to policies that made that possibility remote. In this sense, Canadians can take justifiable pride in the efficient manner in which the rather prosaic service of earmarking of gold was turned to commendable Allied and, at times, humanitarian ends during the war.

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November 1997

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SOMMAIRE

CONTEXTE

La question de l'« or nazi » suscite des débats animés dans les pays occidentaux depuis 1995. Sous l'action conjuguée du Congrès juif mondial et du sénateur Alfonse D'Amato, président de la commission bancaire du Sénat américain, le mystère entourant le sort de l'or pillé par les puissances de l'Axe au cours de la Deuxième Guerre mondiale, représentant quelque 580 millions de dollars américains, a ressurgi avec force. Le gros de cet or avait été saisi au début de la guerre dans les chambres fortes des banques centrales des pays européens tombés sous la coupe de l'armée allemande. Une partie de cet or monétaire, qui appartenait à des États souverains et servait à soutenir leurs opérations monétaires, a été récupérée par les Alliés durant les derniers mois de la guerre et retournée à ses propriétaires légitimes. Une portion plus grande, toutefois, n'a jamais été retrouvée, essentiellement parce qu'elle avait été blanchie, c'est-à-dire affinée clandestinement et transférée vers des banques de pays neutres, en l'occurrence la Suisse, le Portugal et la Suède. Le commerce de l'or volé a surtout servi à financer l'acquisition par l'Allemagne de matières premières étrangères et d'équipement nécessaires à la machine de guerre. À la fin de la guerre, une bonne partie de cet or était en fait entre les mains de pays neutres.

La question de l'or volé comporte d'autres dimensions. Un montant considérable d'or non monétaire, soit de l'or appartenant à des particuliers piégés par la guerre, avait été mélangé à l'or monétaire volé. Plus inquiétantes encore sont les preuves qu'une partie de l'or non monétaire avait été dérobée à des victimes juives des camps d'extermination nazis. Cet or de sinistre origine est également passé par les usines d'affinage nazies et a été blanchi par l'entremise de comptes bancaires et d'opérations commerciales avec les banques de pays européens neutres. Ces mêmes banques sont devenues le point de mire d'une autre intrigue financière liée à la guerre, à savoir la question des comptes bancaires inactifs et des biens dits en déshérence. Avec l'échec de la politique d'apaisement vers la fin des années 30, beaucoup d'Européens, surtout des juifs allemands, en quête d'une certaine sécurité financière devant l'imminence du conflit, placèrent une partie ou la totalité de leurs biens dans des comptes bancaires tenus dans des zones sûres comme la Suisse. L'Holocauste – et l'extermination de millions de personnes – a compliqué la restitution et la disposition de ces biens après la guerre, surtout compte tenu du secret entourant le dépôt initial et érigé autour des comptes étrangers par le système bancaire suisse.

Vers la fin de la guerre, les Alliés tentèrent de manière concertée de retrouver et de rapatrier l'or volé par les puissances de l'Axe. Ils lancèrent plusieurs avertissements, indiquant les conséquences liées au commerce ou à l'acquisition d'or pillé et, à l'approche de la paix, ils entreprirent activement de récupérer l'or nazi. Cette campagne commença grâce au programme Safehaven, mis en oeuvre aux États-Unis, qui toucha surtout la Suisse. En effet, la banque centrale de ce pays, la Banque

nationale suisse, avait acheté plus d'or aux Allemands que n'importe quelle autre banque centrale. La Suisse avait également agi comme principal intermédiaire commercial entre l'Allemagne et les pays autres que ceux de l'Axe. En outre, ce n'était pratiquement qu'à des banques commerciales helvétiques que des victimes de la guerre avaient confié leurs avoirs. La paix revenant, ces banques avaient commencé à subir des pressions exigeant le retour de ces dépôts à leurs propriétaires légitimes. En marge de ces négociations s'est posée l'épineuse question des biens en déshérence, soit celle de savoir ce qu'il fallait faire des actifs pour lesquels il ne semblait pas y avoir d'ayant droit vivant. Jusqu'à la fin des années 40, les gouvernements alliés, en particulier ceux des États-Unis, de Grande-Bretagne et de France, ont mené de longues négociations avec les pays neutres d'Europe qui avaient maintenu des liens financiers avec les pays de l'Axe. Celles-ci ont donné lieu à la restitution d'une certaine quantité d'or aux banques centrales de pays auparavant sous occupation allemande et à la distribution aux apatrides d'un certain montant d'actifs en déshérence. Mais il n'y avait plus trace de la majeure partie de l'or volé, et les droits de propriétaires de comptes et d'héritiers de comptes personnels tenus dans des banques de pays neutres ont été très fortement sous-estimés par les négociateurs des pays alliés. Au début des années 50, des questions nouvelles liées à la diplomatie européenne et à la guerre froide ont eu tendance à faire passer la question de l'or volé au second rang.

La conjugaison de la fin de la guerre froide au début des années 90, de l'effondrement du bloc communiste et de la détermination du Congrès juif mondial de rendre justice à certains membres de la communauté juive spoliés depuis longtemps de leurs biens a eu pour effet de raviver, en 1995, l'intérêt à l'égard de l'or volé et des comptes bancaires inactifs. Une fois de plus, la Suisse était au coeur de la controverse, laquelle était de nature à la fois politique, morale et historique. Après une brève et désastreuse période de dénégation et d'obstruction de la part des banquiers suisses, le monde entier s'est mis à vouloir connaître la vérité et à exiger la restitution des biens. Pour y parvenir, on a eu recours dans la plupart des cas à l'enquête historique. Des commissions d'historiens ont été officiellement instituées et se sont mises au travail en Suisse, au Portugal, en Suède, en Grande-Bretagne et aux États-Unis. Elles ne se sont pas uniquement intéressées aux opérations effectuées pendant la guerre pour les banques centrales et commerciales, mais aussi plus généralement à l'activité diplomatique et à la machine de guerre des Alliés et des puissances de l'Axe. Des archives ont été passées au peigne fin, des preuves ont été assemblées et des rapports produits, le plus connu étant jusqu'ici l'énorme rapport Eizenstat commandé par le président Clinton. Le processus de restitution aussi a été mis en branle. L'association des banquiers suisses a finalement entrepris le recensement exhaustif des comptes bancaires inactifs tenus chez ses membres, permettant ainsi que des comptes gelés depuis longtemps soient retournés aux ayants droit.

Lors de toutes les enquêtes initiales lancées après la guerre et dans le contexte du récent regain d'intérêt

soulevé par la question de l'or nazi, on n'a pratiquement jamais entendu mentionner le Canada. Le Canada n'a joué aucun rôle actif dans les négociations qui ont eu lieu à la fin des années 40 avec les pays neutres d'Europe, et son nom n'a jamais été cité en rapport avec le commerce de l'or volé. L'énorme rapport Eizenstat, publié au début de cette année par le gouvernement américain, n'associe nulle part le Canada à l'or volé, bien que ses conclusions reposent sur la consultation de plus de 15 millions de documents. En juillet 1997, le rôle joué par le Canada a brusquement fait surface. Un document trouvé par les chercheurs du Congrès juif mondial à Washington a donné lieu à l'allégation, fondée sur un rapport anonyme des services du renseignement publié vers la fin de la guerre « de source très confidentielle », selon laquelle la Banque du Canada avait participé en 1942, par jeu d'écritures, à un processus complexe de transfert de six tonnes d'or entre la Suisse et le Portugal. Plus tard pendant la guerre, avance le document, cette même quantité d'or fit partie d'un deuxième échange suspect, cette fois entre le Portugal et la Suède, de nouveau grâce à l'intermédiation de la banque centrale canadienne. Dans une lettre accompagnant ce document et l'allégation incriminante envoyée le 11 juillet 1997 à M. Gordon Thiessen, gouverneur de la Banque du Canada, le Congrès juif canadien était d'avis, à l'instar du Congrès juif mondial, que les transferts d'or faisant intervenir la Banque du Canada ressemblaient à une « opération classique de blanchiment d'argent ». Le Congrès juif canadien demanda donc que la Banque du Canada « entreprenne une enquête pour clarifier la participation de la Banque dans ces opérations ».

La Banque du Canada a immédiatement accepté la demande qui lui avait été faite et annoncé que non seulement elle lançait une enquête exhaustive, mais qu'elle retenait également les services d'un historien non rattaché à l'institution pour garantir l'indépendance de l'enquête sur le rôle joué par elle dans les mouvements de l'or pendant la guerre. C'est ainsi que, le 12 août, je commençais mon enquête. Mon mandat était à la fois large et sans entraves. J'avais pour mission de consulter tous les documents de la Banque du Canada portant sur les opérations sur l'or ayant eu lieu de 1935, année de la fondation de la Banque, à 1950; on m'assurait un accès inconditionnel aux archives et au personnel de la Banque. Comme le ministère des Finances avait également joué un rôle dans les transferts d'or en cause, M. Paul Martin, ministre des Finances, a aussi garanti la collaboration sans réserve de son ministère. L'enquête devait aboutir à un rapport public censé « répondre aux préoccupations du public concernant la participation possible de la Banque du Canada dans les opérations visant l'or volé par les Nazis effectuées pendant et après la Deuxième Guerre mondiale » et parallèlement conseiller la Banque sur « la façon appropriée de rendre les dossiers [de la Banque] accessibles à d'autres chercheurs ». C'est dans ces conditions que j'ai entrepris les recherches étayant le présent rapport.

MÉTHODOLOGIE

Le présent rapport est fondé sur une recherche intensive de tous les documents archivés portant sur les transferts d'or ayant transité par la Banque du Canada pendant la Deuxième Guerre mondiale. Cette recherche a dépassé le cadre strict des dossiers de la Banque du Canada pour englober ceux de ministères et bureaux du gouvernement fédéral ayant joué un rôle, si éloigné soit-il, dans les transferts d'or en cause. Les documents de politiciens et de hauts fonctionnaires de premier rang ont également été consultés. Des retraités de la Banque du Canada qui auraient pu se rappeler les opérations de la Banque pendant la guerre ont été interrogés. Même si l'objectif premier de l'enquête était de donner le point de vue canadien au sujet de ces transferts, un effort concerté a été fait pour communiquer avec les banques centrales européennes qui avaient joué un rôle dans ces transferts et obtenir des opinions et des documents concernant ce rôle. Pour ce faire, des demandes de renseignements détaillés ont été soumises à la Banque d'Angleterre, à la Banque nationale suisse, à la Banque du Portugal et à la Sveriges Riksbank à Stockholm. Toutes ces institutions ainsi que les commissions de ces pays enquêtant sur l'or nazi ont collaboré entièrement et sans réserve. Les conclusions qui suivent peuvent être tirées des documents consultés à l'appui du présent rapport.

La fiabilité du matériel source utilisé dans le présent rapport :

- Des documents complets et exhaustifs concernant le rôle de la Banque du Canada à titre de gardien d'or appartenant à des pays étrangers existent. Ces documents reflètent la diligence et le souci du détail qu'on attend d'une banque centrale. Il n'existe pratiquement pas de vides à cet égard.
- Cette documentation est complétée par des documents archivés d'autres organismes fédéraux, en particulier le ministère des Finances, qui avaient joué un rôle secondaire dans l'établissement des directives sur la garde d'or appartenant à des pays étrangers à Ottawa.
- Il n'existe aucune preuve de manipulation de la documentation. Un vide dû à une dérogation possible aux méthodes comptables de l'époque a été relevé dans la documentation concernant l'important compte tenu pendant la guerre par la Banque d'Angleterre à Ottawa, mais on peut reconstituer les faits à partir de preuves tirées d'autres documents.
- Les dossiers liés aux transferts d'or litigieux survenus entre 1942 et 1945 entre la Suisse, le Portugal et la Suède par l'intermédiaire de la Banque du Canada ne trahissent absolument aucune dérogation à la procédure établie en la matière (par exemple, la présentation de documents de transfert légaux et les permis d'exportation d'or) par rapport au traitement d'autres comptes d'or non litigieux.
- Il existe de nombreuses preuves attestant de la très grande énergie consacrée par la Banque du Canada

conservation systématique de ses dossiers.

- Toute la documentation originale obtenue de la Banque d'Angleterre, de la Banque nationale suisse, de la Banque du Portugal et de la Sveriges Riksbank tend à confirmer la teneur des dossiers de la Banque du Canada relativement aux événements entourant les transferts d'or ayant eu lieu entre 1942 et 1945.
- Il n'existe pas, et cela est frappant, de notes marginales, d'observations spéciales ou d'annotations témoignant de l'inquiétude dans les dossiers concernant ces transferts, ce qui laisse croire que ceux-ci n'étaient pas perçus comme étant inhabituels par les intervenants canadiens.
- Les dossiers des cadres supérieurs à la Banque du Canada ainsi que ceux de politiciens et hauts fonctionnaires de premier plan ne révèlent aucune préoccupation indue au sujet des transferts en cause (par exemple, les carnets de W. L. M. King ou les documents du ministre des Finances J. L. Ilsley).
- La Banque du Canada a accompagné la présente recherche d'un effort considérable de reconstitution de ses grands livres concernant l'or (c'est-à-dire les grands livres utilisés pour enregistrer tous les mouvements de l'or dans ses chambres fortes) pour la période 1935-1956. Ce travail est terminé en grande partie, ce qui permettra éventuellement à la Banque de retracer les mouvements de chaque lingot d'or ayant transité par elle durant ces années. Un aperçu statistique de cette restitution est annexé au présent rapport.
- Une liste de tous les documents consultés au cours de notre enquête est disponible sur demande auprès de la Banque du Canada. Certains de ces documents sont déjà à la disposition du public (par exemple aux Archives nationales), d'autres demeurent entreposés dans des archives à accès restreint.
- Le présent rapport avalise la détermination de la Banque du Canada de mettre à la disposition du public tous les documents consultés au cours de notre enquête. Ce processus est bien entamé, mais ne peut pas progresser plus vite que ne l'exigent les dispositions de la Loi sur l'accès à l'information et la Loi sur la protection des renseignements personnels. Le principe du secret bancaire a également nécessité une demande d'autorisation auprès de banques centrales européennes concernées pour la publication des documents cités dans le présent rapport.

RÉSULTATS

- Pendant la Deuxième Guerre mondiale, le Canada a joué un rôle important dans le transfert d'or étranger aux chambres fortes de la Banque du Canada. Entre les premiers grondements de la guerre en 1938 et le retour de la paix en 1945, des banques centrales étrangères ont déposé 2 586 tonnes d'or en réserve à Ottawa. Pour un grand nombre de pays tombés sous l'occupation allemande, cacher de l'or offrait la garantie ultime de survie nationale. En particulier, les banques centrales de la Belgique, des Pays-Bas, de la France, de la Norvège

et de la Pologne ont tiré parti de cette manifestation singulière de l'hospitalité canadienne en temps de guerre. La Banque d'Angleterre a elle aussi souvent affecté de l'or en réserve à Ottawa et avait même, pendant les jours sombres de 1940, envisagé la création d'une banque centrale « fantôme » à Ottawa, qui aurait été habilitée à prélever de l'or caché au Canada. De tels dépôts d'or ne rapportaient aucun profit au Canada, au delà de frais minimes de traitement.

- Les déplacements d'or affecté en réserve à la Banque du Canada se faisaient presque exclusivement dans un seul sens. D'importants montants d'or avaient traversé l'Atlantique au début de la guerre, en provenance surtout de la Banque d'Angleterre et de la Banque de France. Après 1941, il n'est pratiquement plus arrivé d'or en provenance d'Europe à l'exception d'un envoi de 525 lingots par la Bank Polski de Londres en 1944. Pendant la guerre, l'or en réserve à Ottawa n'a presque jamais été réexpédié à ses propriétaires, à l'exception de deux petits envois de pièces d'or à l'Angleterre en 1942. Toutes les opérations dont il est question dans le présent rapport représentent des jeux d'écritures portant sur la propriété de l'or entre le compte d'une banque centrale tenu à la Banque du Canada et des comptes d'autres banques centrales. Il est donc absolument impossible que de l'or suspect – l'or pillé par l'Allemagne – ait trouvé le chemin des opérations aurifères canadiennes courantes.
- Le transfert entre 1942 et 1943 de l'or de la Banque d'Angleterre en réserve à Ottawa au compte de réserve de la Banque nationale suisse à Ottawa visait 56 tonnes d'or, soit une petite portion de l'ensemble des dépôts d'or étranger tenus à Ottawa pendant la guerre. Cet or avait été échangé contre des francs suisses, qui furent livrés aux Britanniques en Suisse. La Grande-Bretagne avait désespérément besoin de francs suisses pour maintenir ses échanges et ses relations diplomatiques avec la Suisse, et cette dernière avait consenti à l'échange sans grand enthousiasme. La Suisse disposait déjà de grandes quantités d'or déposées à Londres et à New York, mais cet or était bloqué et ne lui servait pas à grand'chose pendant la guerre. Les Suisses ne consentirent à l'opération qu'à titre de mesure temporaire dans l'espoir de maintenir avec les Britanniques des négociations commerciales qui marquaient le pas.
- Pour protéger l'or passé du contrôle des Alliés à celui de pays neutres et affecté en réserve à Ottawa, la Banque du Canada avait modifié les conditions minimales imposées avant la guerre aux déplacements d'or étranger déposé au Canada pour refléter les exigences particulières au temps de guerre. La Banque s'inquiétait surtout que les 56 tonnes d'or suisse en réserve à Ottawa puissent être réexpédiées en Europe et tomber en fin de compte sous le contrôle des pays de l'Axe. Ces

nationale suisse en provenance de la Banque d'Angleterre ne pouvait être physiquement exporté que vers d'autres banques centrales des pays de l'hémisphère occidental ou transféré par jeu d'écriture aux banques centrales de ces pays et des pays neutres d'Europe, en l'occurrence le Portugal, la Suède et l'Espagne. Ces conditions devaient s'appliquer jusqu'à la fin des hostilités. Les Suisses les avaient acceptées.

- Les relations que la Banque du Canada entretenait avec la Banque d'Angleterre expliquent en grande partie pourquoi la banque centrale canadienne était disposée à faciliter de tels échanges. Le Canada avait été l'une des dernières puissances occidentales à se doter de sa propre banque centrale. Depuis son inauguration en 1935, la Banque du Canada avait été fortement inspirée par la Banque d'Angleterre. La grande amitié qui liait son gouverneur d'alors, Graham Towers, et Montagu Norman, gouverneur de la Banque d'Angleterre, est un reflet des relations entre les deux institutions. La Banque d'Angleterre avait été, par exemple, la première banque centrale étrangère à ouvrir – en 1936 – un compte d'or en réserve à Ottawa. De plus, la première personne à occuper les fonctions de sous-gouverneur à la Banque du Canada en 1935 était prêtée par la Banque d'Angleterre. Le gouverneur Towers ne négligeait jamais les intérêts du Canada, mais il était porté, presque comme un fils, à répondre aux demandes de l'Angleterre. Cet état d'esprit aura eu pour effet de prédisposer la Banque du Canada à répondre favorablement à la demande britannique de faciliter des échanges d'or avec la Suisse et d'autres pays européens.

- L'échange d'or contre des francs réalisé en 1942 avait été précédé par une autre requête présentée en septembre 1940 par la Banque d'Angleterre. Face à la prolifération des dépôts de petites quantités d'or dans des banques commerciales anglaises par des Européens voulant à tout prix protéger leur richesse et leur bien-être, la Grande-Bretagne demanda à la Banque du Canada d'affecter ces dépôts d'or des particuliers à ses propres comptes tenus en réserve à Ottawa. Il s'agissait là d'une entorse à la procédure d'affectation habituelle de l'or en ce sens que cela permettait à des étrangers de bénéficier, bien au delà des frontières de l'Europe, de la sûreté qu'offre un compte en réserve. Les dépôts restaient sous le contrôle de la Banque d'Angleterre. Des frais de traitement à hauteur de 5 % de la valeur de chaque dépôt d'or des particuliers devaient être payés par chaque déposant, qui devait signer une entente en vertu de laquelle l'or ne pouvait pas être libéré avant la fin de la guerre, sauf dans des circonstances exceptionnelles approuvées par la Banque d'Angleterre. Entre septembre 1940 et juin 1941, 155 dépôts de particuliers à la Banque d'Angleterre furent ainsi inclus aux expéditions d'or de Londres à Ottawa, pour un montant total équivalant à 1 315 lingots d'or. Un grand nombre de propriétaires de ces dépôts semblent – par le nom et la référence – avoir été des réfugiés juifs européens ayant quitté leur pays d'origine au début de la guerre. Ils étaient généralement aisés et avaient quitté leur pays suffisamment tôt pour

éviter l'Holocauste. D'autres dépôts semblent avoir été effectués par des Suisses et des particuliers d'autres nationalités. Un petit groupe de déposants – 34 – réussirent à convaincre la Banque d'Angleterre de libérer l'or qu'ils détenaient à Ottawa avant la fin de la guerre. Les dépôts restants ont tous été fermés après la guerre sans incident ni complication, le dernier ayant été fermé en 1955.

- Peu après le début des échanges d'or britannique contre des francs suisses au printemps de 1942, la Banque nationale suisse (BNS) a commencé à chercher des moyens d'appliquer l'or qu'elle accumulait à Ottawa à ses besoins internes en Suisse, principalement à la constitution de réserves d'or à titre de mécanisme de lutte contre l'inflation. Cette tentative fut limitée par les conditions que la Banque du Canada avait imposées sur les comptes d'or en réserve. Une première tentative visant à établir des comptes de banques commerciales suisses à Ottawa, et donc à ouvrir la voie à des transferts entre des banques à l'étranger et ces comptes, fut mise en échec par la vigilance des responsables à la Banque du Canada. À la suite de cette tentative, le gouverneur Towers demanda aux directeurs généraux des banques à charte canadiennes de ne plus ouvrir de nouveaux comptes de garde d'or au profit de non-résidents et de déclarer toute demande ultérieure de tels services à Ottawa. Après cet échec, la BNS entreprit des pourparlers avec la Banque du Portugal, qui disposait de comptes d'or auprès d'elle en Suisse. En deux opérations de valeur égale effectuées en avril et en mai 1942, la BNS troqua quatre tonnes de son or en réserve au Canada contre un montant similaire d'or portugais en réserve dans ses propres chambres fortes en Suisse. Les Suisses réussirent ainsi à obtenir la libre utilisation de quatre tonnes d'or tenu en Suisse en échange de quatre tonnes d'or, propre selon toute probabilité, tenu à Ottawa. Pour réaliser l'échange, la BNS fut obligée de payer à la Banque du Portugal une forte commission représentant 1 1/2 % du montant du premier échange et 2 1/2 % du montant du second. Ces commissions reflétaient le fait que l'or que devaient recevoir les Portugais à Ottawa était bloqué pour la durée de la guerre. Après ces échanges, le conseil d'administration de la BNS décida d'abandonner la tactique consistant à offrir de l'or tenu à Ottawa contre de l'or tenu en Europe à cause du coût prohibitif de telles opérations. La question cruciale de savoir si l'or portugais livré aux Suisses était de l'or suspect d'origine allemande a été élucidée grâce aux documents britanniques classés sur la période de la guerre reconstitués à partir de messages télégraphiques interceptés par les Britanniques entre les banques centrales suisse et portugaise et des registres bancaires récemment rendu publics par la Banque du Portugal. Ces documents montrent que la Banque du Portugal avait bel et bien versé d'importants montants d'or en provenance de la Reichsbank dans ses comptes à la BNS, mais que l'or transféré aux Suisses en 1942 provenait, croyait-on généralement, d'un compte « censé être libre de souillure allemande ». Il n'existe pas de certitude absolue que l'or échangé n'était entaché d'aucune souillure, mais les preuves tirées des documents et l'absence totale de toute préoccupation à

cet égard de la part des banquiers des pays alliés jouant un rôle dans les opérations d'échange laissent croire que c'était le cas. Une fois de plus, les besoins de liquidités intérieurs, et non des stratégies de blanchiment d'or volé par les Allemands, ont semblé avoir motivé l'opération.

- En 1944, le Portugal a lui-même eu à faire face à des problèmes de liquidité dans ses échanges commerciaux avec la Suisse et la Suède. De plus en plus incapable d'effectuer des opérations sur or compte tenu du resserrement des recommandations des Alliés concernant l'or volé, le Portugal fut amené à financer ses échanges avec des devises fortes comme le franc suisse et la couronne suédoise. En août, la valeur de l'escudo avait chuté par rapport à ces monnaies. Les Suisses et les Suédois s'étaient montrés peu enclins à accepter les offres portugaises d'échange d'or contre des devises. En désespoir de cause, la Banque du Portugal offrit alors à la Sveriges Riksbank, la banque centrale de Suède, de l'or propre tenu à Ottawa contre des couronnes. Cette offre d'une tonne et demie d'or faite en septembre et en octobre 1944 fut acceptée par les Suédois, à la condition que les Portugais n'utilisent les couronnes reçues qu'aux fins des échanges entre le Portugal et la Suède. Par la suite, la Sveriges Riksbank et la Banque du Portugal se mirent d'accord pour alléger les besoins continus de devises du Portugal en effectuant des échanges d'or tenu en réserve à Ottawa pour fournir des couronnes suédoises à Lisbonne. Au moment où ce processus a pris fin en septembre 1945, la Sveriges Riksbank avait accumulé deux tonnes et demie d'or ayant auparavant appartenu à la Banque du Portugal et tenu à Ottawa.
- Un dernier échange d'or a mis fin au rôle joué par la Banque du Canada dans les transferts d'or entre les banques centrales de pays européens neutres. Pendant qu'elle était engagée dans des échanges d'or contre des devises avec la Sveriges Riksbank en septembre 1944, la Banque du Portugal avait également échangé deux autres tonnes de son or placé en Suisse contre de l'or suisse en réserve à Ottawa. Comme ce fut le cas en 1942, l'or tenu en Suisse provenait du compte d'or propre du Portugal. Cette fois-ci, le Portugal reçut une commission moins élevée, à hauteur seulement de 3/8 % du montant de l'échange, probablement parce qu'elle avait compris qu'il était dans son intérêt d'accroître sa réserve d'or à Ottawa, l'accord qu'il venait de signer avec la Suède pouvant exiger de nouveaux transferts d'or si l'escudo continuait de se déprécier.
- Une fois supprimées, après la guerre, toutes les conditions imposées à l'or gardé en réserve à Ottawa, les banques centrales des pays neutres n'ont affiché aucun empressement à vider les comptes qu'elles tenaient à Ottawa. En fait, tous les pays ayant pris part à des échanges d'or durant la guerre ont maintenu leurs réserves à Ottawa en période de paix, augmentant parfois la valeur de leurs dépôts.
- Pendant que s'effectuaient toutes ces opérations, les dirigeants de la Banque du Canada, habituellement en consultation avec les hauts fonctionnaires du ministère des Finances et de la Banque d'Angleterre, ont agi avec diligence en ce qui concerne le traitement des demandes

venant d'Europe. Il faut tenir compte de la situation qui prévalait en ce temps-là. Les opérations dont il est question dans le présent rapport ont eu lieu au plus fort de la guerre, lorsque les pressions liées à la prise de décisions pesaient lourdement sur les hauts fonctionnaires d'Ottawa. Les transferts d'or en cause entre des banques centrales de pays amis et neutres représentaient des décisions qui étaient prises rapidement parmi la foule de défis que présentait l'état de guerre et doivent être considérées sous cet angle. Généralement parlant, les décisions concernant la garde par le Canada d'or étranger en réserve à la Banque du Canada sont conformes au style de comportement réfléchi et bien équilibré des hauts fonctionnaires que les générations suivantes ont appris à connaître comme les « gens d'Ottawa ». Ils n'ont jamais eu la certitude absolue qu'Ottawa n'était pas en train de faciliter le déplacement d'or volé et n'ont jamais eu le pouvoir d'éliminer entièrement cette possibilité, mais leur instinct les a poussés à adopter des politiques qui la rendaient lointaine. En ce sens, les Canadiens peuvent avec raison se féliciter de l'efficacité avec laquelle un simple service d'affectation d'or a été utilisé, pendant la guerre, à des fins à la fois louables pour les pays alliés et humanitaires à l'occasion.

Dr. Duncan McDowall
Ottawa
November 1997

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Preamble

UNFINISHED BUSINESS

In 1995, the fiftieth anniversary of the end of World War II produced a joyous and predictable celebration of the liberation from the heel of Axis repression of Europe and parts of the Far East. The parades, wreath-layings and reunions all seemed designed to bring closure to the agonies of the century's second global conflict. Yet, the year also produced some painful and unpredicted outcomes that stimulated rather than stilled half-century-old injustices and anxieties. While the military, diplomatic, social and economic history of the war has long been accorded extensive treatment, events in 1995 reawakened nagging concerns that the financial and fiscal history of World War II still contained unresolved mysteries and unadjudicated injustices. Much of this moral, political and legal disquiet centred on the financial strategies and procedures of the Axis war machine and some of the neutral powers — principally Switzerland — situated around its periphery.

At the centre of the controversy was what Stuart Eizenstat, the U.S. under secretary of commerce for international trade who has headed that government's massive investigation into the issue, has called "One of the greatest thefts by a government in history" -- the looting of an estimated US$580 million of central bank gold from territories conquered by Germany during World War II.(1) Postwar reports indicated that the largest involuntary contributor to this trove was the Belgian central bank with US$223 million, followed by the Netherlands with US$168 million, then US$64 million of Italian gold, US$53 million of French gold and a succession of smaller contributions from Austria, Hungary, Yugoslavia, Czechoslovakia, Poland, Luxembourg and Danzig.(2)

Added to this hoard of "monetary gold" -- gold held by governments to support the monetary operations of the state -- was a smaller, indeterminate amount of "non-monetary" gold, gold looted from individuals trapped in Germany and Axis-occupied lands. This pillaging of personal gold ranged from the casual acquisition of family treasures by the advancing German army to the systematic collection of gold -- jewellery and dental gold -- from the victims of the Nazi death camps in which so many European Jews perished in the Holocaust. It is important to emphasize, as Stuart Eizenstat has forcefully pointed out, that Germany's acquisition of looted gold was no accidental by-product of war: "the massive and systematic plundering of gold and other assets from conquered nations and Nazi victims was no rogue operation.

It was essential to the financing of the German war machine."(3)

Two factors clouded understanding of the ultimate disposition of this so-called "Nazi gold." During the course of the war, Germany used much of this precious loot to finance its war economy. Having quickly drawn down its own store of central bank gold (generally estimated to have been around US$100 million in 1939) in the early stages of the war and unable to finance its international purchases with its shunned currency, the Reich began recycling captured gold into its trade financing. This usually involved the resmelting of looted gold by the Reichsbank to disguise the metal's national origin — gold, for instance, bearing the marks of the Belgian and Dutch central banks — and then passing it off to Axis trade partners as legitimate prewar gold. A second complicating factor was introduced by the deliberate blending of non-monetary gold into this flow of seemingly pure monetary gold thereby creating "tainted" gold. Given the purity and uniformity of refined gold and the ease of imprinting re-refined bars with counterfeit marks, the degree of this tainting in the overall hoard of looted gold by Germany is virtually impossible to determine.

Much of the outflow of Germany's looted gold was directed to and willingly received by neutral Switzerland. The almost exclusive conduit for these transfers was the Swiss central bank, the Banque Nationale Suisse (BNS), which received an estimated US$400 million in German looted gold between 1939 and 1945. Of this transferred gold, US$276 million or about three-quarters was bought directly by the BNS and the rest was simply channelled through the bank to the accounts of other trading partners of the Axis.(4) Portugal was the largest of these recipients, followed by Spain. During the course of the war, the BNS also resold gold it had probably acquired from the Axis to other neutral countries, again principally Portugal. The Banque Nationale Suisse's own records reveal that Germany was the largest supplier of gold to Switzerland with sales of SFr1,210.3 million between 1939 and 1945; Portugal was the largest acquirer of Swiss gold with purchases of SFr451.5 million.(5) During the war, the gold reserves of the Swiss national bank consequently grew dramatically, although much of the growth took place beyond Switzerland's borders in blocked accounts in London, New York and Ottawa and often as the result of direct Swiss purchases of gold from the Allies, notably SFr1,178.2 million worth from the United States. Gold stocks held physically in Switzerland actually declined slightly. These strong gold reserves secured the Swiss franc's value and ensured that when the war ended Switzerland would emerge with a economy well positioned for the opportunities of peace.

The Allies were never oblivious to Germany's disposition of looted gold. As early as 1942, the British government began agitating for a joint Allied injunction that would have proscribed any recognition of transfers of property in Axis-occupied territories. On January 5, 1943, seventeen nations did in fact sign the "Inter-Allied Declaration Against Acts of Dispossession" which contained the threat that legal recognition of transfers of looted goods would be withheld by the victorious Allies when peace returned. The declaration was intended to cool the willingness of neutral powers, like Switzerland, to act as outlets for assets plundered by the Axis. As such, it joined an existing array of "freezing" measures that had been imposed on Axis and neutral countries earlier in the war in an effort to crimp Germany's ability to finance its war economy.

The 1943 declaration did not specifically target looted gold. Conscious that large amounts of German gold were still

crossing the Swiss border, U.S. Secretary of the Treasury Henry Morgenthau began to assert American leadership in the campaign to contain the spread of Germany's plundered wealth. In a declaration of February 22, 1944, the American government vowed not to recognize the title or to purchase any gold passed by Germany onto world markets. Rigorous conditions were set out for gold held by countries that had not officially broken relations with the Axis. Britain and the Soviet Union issued similar declarations. American leadership on the question of looted gold became further evident in the spring of 1944 when U.S. Treasury officials hatched a more active program of containing the spread of Germany's ill-gotten wealth. Fears that Germany might be stockpiling looted gold beyond its borders to provide a foundation for the erection of a postwar Fourth Reich explained some of the pressure for this new style of active containment. Postwar restitution of such wealth also now joined containment as an objective of Allied policy. At the heart of Operation Safehaven, as the American initiative became known, was fact-finding by officials despatched to Europe. Facts were not, however, easy to come by as neutral trading partners of the Axis proved uncooperative and jealousies between Allied agencies undermined the effort.

The Safehaven initiative was however reinforced in July 1944 by Resolution VI of the Bretton Woods conference at which the Allies mapped out the contours of the postwar monetary system. The resolution called upon neutral powers to "take immediate measures to prevent any disposition or transfer...of looted gold, currency, art objects, securities and financial or business enterprises [and] to take immediate measures to prevent the concealment by fraudulent means or otherwise" of stolen assets. Safehaven now became an active Anglo-American intelligence program aimed at dissecting the patterns of Axis-neutral trade and financial interaction. Switzerland increasingly became the fulcrum of these investigations. In the wake of the D-Day landings and the imminence of the Axis defeat, increasing diplomatic pressure was placed on Switzerland to reveal the workings of its financial relationship with Germany. At the same time, intense effort was poured into the clandestine collection of evidence of Switzerland's complicity in the movement of Nazi gold from the Reichsbank to the vaults of neutral European banks. Central to this collection was the Office of Strategic Services (OSS), an American intelligence agency formed in 1942 to monitor among other tasks the Axis economy. The OSS station in Berne was run by Allen Dulles, a hard-driving, Wall Street banking lawyer, who soon turned the post into a clearing house for the flood of hard evidence, rumours and speculation that began to emerge from the crumbling Axis and from Swiss sources, now aware that the tide of the conflict had clearly turned in the Allies' favour. Other OSS operations were conducted elsewhere in Europe, especially in neutral centres such as Madrid and Lisbon. It was from this net of intelligence that the first real appreciation of the magnitude of the flow of looted gold out of Germany began to emerge.

The Safehaven investigations set the stage for a period of intensive postwar negotiations between the victorious Allies and neutral countries believed to be in possession of German assets. These long and arduous negotiations stretched into the early 1950s and generally involved two objectives: the restoration of looted monetary gold to its rightful owners -- the central banks of now-liberated European countries -- and the extraction of non-monetary gold out of the pool of monetary gold and its application to the plight of refugees displaced by the war. The Swiss were to prove wily negotiators, constantly pleading that the preservation of Swiss neutrality governed their ability to satisfy Allied demands. Consequently, the untainting of monetary gold was to prove an aggravating

challenge. The intricate details of these postwar negotiations lie beyond the scope of this preamble,(6) except to note that certain acknowledgements and restitutions were achieved. In 1946, a "Gold Pool" was established by the Allies for the restitution of looted monetary gold on a prorated basis to its legitimate national owners. A Tripartite Commission on the Restitution of Monetary Gold (TGC) was established by the United States, Britain and France to administer the pool. In 1947, under the terms of the 1946 Allied-Swiss Accord signed in Washington, Switzerland paid US$58 million -- a figure far below the US$185-289 million in looted gold that Safehaven intelligence reports indicated were in BNS coffers at the war's end -- into the TGC. This contribution was reciprocated by the Allies' gradual unblocking of Swiss assets held outside the country. At the same time, Switzerland agreed that it would, in cooperation with an Allied joint commission, liquidate German assets still held within its borders. These assets were estimated by the Allies to be worth US$250-$500 million; the Swiss claimed their worth to be US$250 million.

In 1948, Switzerland agreed to pay another US$4.7 million to the International Refugee Organization for the support of refugees displaced by the war. But after this, Swiss intransigence gained an upper hand in the negotiations. Swiss negotiators argued that Switzerland's own debt claims on defeated Germany must first be satisfactorily settled, that the exchange rates embedded in the 1946 accord with the Allies were unfair and that the Allies must recognize certain German assets seized by the Allies in the war as actually Swiss-owned. Through all this, the Swiss acknowledged no moral culpability in the handling of wartime looted assets.

The diminishing returns of Allied-Swiss gold restitution negotiations were generally paralleled by similar negotiations with the other neutral countries — Spain, Portugal, Sweden, Turkey and Argentina — implicated in the wartime dealing in looted gold. As the peace faded into the Cold War, new, unrelated geopolitical considerations (e.g., NATO's desire to build a strategic air base in Portugal's Azores islands) began to colour and debase negotiations over looted gold. Finally in 1952, the frustrated Allies agreed to a compromise with the Swiss by which the Swiss would pay another US$23.6 million towards the relief of war refugees in lieu of any liquidation of German assets held in Switzerland. A parallel agreement between Switzerland and the new West German government allowed the Swiss to recover about half of the outstanding war debt owed it by Germany.

The 1952 agreements effectively brought to an end active Allied efforts to identify and restore the monetary gold that had been devoured by the Axis and pumped abroad to finance its ambitions. The Tripartite Gold Commission would continue its work, fitfully restoring monetary gold to the once-occupied countries of Europe. As late as 1995 monetary gold was returned to Albania by the Bank of England. Despite this, there had been a dreadful slippage from the early postwar determination to track down and restore the estimated US$580 million in looted monetary gold. Despite a mountain of intelligence material gathered both by operations such as Safehaven and during the protracted, postwar negotiations with the Swiss and other neutral powers that had worked with the Axis, there was still no clear understanding of exactly how looted gold found its way into the mainstream of legitimate European finance. Switzerland had effectively warded off such discovery by means of artful negotiation and dogged insistence on the sanctity of its neutral status.

The troubled search for monetary gold was paralleled by another attempt at postwar restitution of assets dislocated by the war — the so-called question of "heirless assets." Just as

the war had divorced national governments from their legitimate gold stocks, so too did it conspire to separate individuals from their personal wealth and make them economic victims of the conflict. After the war, attention focused on two particular types of such victims. First, there was strong evidence that gold and other precious assets of the victims of German death camps had been seized and put to the economic service of the Axis. The gold was then mingled — by resmelting and counterfeit marking — with seized stocks of monetary gold. After the war, the differentiation of legitimate, prewar monetary gold from "tainted" victims' gold proved devilishly difficult. To some degree, this dilemma was addressed by the commitment contained in the Paris Reparations Agreement of January 1946 to establish a US$25 million fund to assist stateless peoples. Into this fund, later administered by the International Refugee Organization, Switzerland, for instance, made its contribution of US$4.7 million in 1948.

A second category of victims' assets proved equally awkward to resolve. As the war tensions mounted in the late 1930s, many Europeans sought a measure of security by dispersing their assets to foreign domiciles, where they imagined their wealth would be safe from enemy incursion. This flight of capital largely originated in Germany, where Jews sensed the menace of the anti-Semitism that national socialism nurtured. With its reputation for neutrality and banking integrity, Switzerland became a favourite destination for such assets, but the dispersal reached as far afield as the United States. These arrangements were largely made with commercial banks, where foreign nationals simply opened accounts or rented safety deposit facilities. With the advent of war, Allied governments froze the assets of foreign nationals within their borders and administered them as "alien" or "enemy" property.

With the return of peace, Allied governments loosened these controls and returned the assets to the control of their owners or their heirs. The disposition of assets of those who had died heirless proved more difficult, particularly in light of the decimation of European Jewry by the Germans. Much the same situation pertained in Switzerland. Under the terms of the 1946 Allied-Swiss Washington Accord, Switzerland agreed to examine "sympathetically" the idea of transferring heirless assets found in Swiss banks to postwar Allied efforts at refugee relief. While it seemed likely that these assets were predominantly those of Jewish victims of the Holocaust, there was no accurate way, given Switzerland's insistence on the sanctity of its commercial banking system, of ascertaining the number of these accounts or their magnitude.

In the immediate postwar decade the issue of heirless assets was shunted aside by the Allied-Swiss fixation on the restitution of monetary gold. Even in the United States, action was slow in coming. In 1954, a law was passed designating the Jewish Restitution Successor Organization (JRSO) in New York as the "successors in interest" of heirless Jewish assets held in the United States. By 1957, the JRSO had vetted approximately 11,000 claims on these assets and had approved approximately 2,000 of them as worthy of compensation. In 1962, another American law made US$500,000 available for the settlement of these claims.

In Switzerland, settlement of the heirless assets issue proceeded more slowly. The 1946 Paris Reparations Agreement had placed responsibility for reparations for individual victims of the war with individual national governments and international agencies (such as the International Refugee Organization). Thus, any effort to discover and lay claim to heirless assets depended upon the willingness of individual states, particularly those touched by

the postwar diaspora of Jews, to choose to prosecute the issue. In the free world, pressure was applied by the World Jewish Congress, but behind the Iron Curtain there was virtually no willingness to champion an attempt to locate and secure title to heirless assets in the interest of Jewish citizens. In 1949, for instance, the Polish government struck a deal with Switzerland whereby the heirless assets of Polish origin were transferred to the Polish government which then applied them to settling Swiss claims against Poland. Individuals who took it upon themselves to attempt this task of identifying and freeing heirless assets in Switzerland, where most of the accounts were believed to be, were soon confronted by the impenetrable regulations of Swiss commercial banking.

The 1952 German-Swiss agreement on the settlement of German assets held in Switzerland allowed Germans to liquidate their assets in Switzerland. Holocaust victims with Swiss holdings of less than SFr10,000 were exempted from the provisions of the agreement that obliged those claiming their assets to make a compulsory Swiss franc contribution to the German government equal to one-third of the value of their assets. Through all these procedures, the Swiss government insisted that the integrity of its commercial banking system could not be breached by probes designed to connect heirless assets with potential claimants. The onus was placed on the banks themselves to identify and come forward with information on the existence of such accounts, a request that was enshrined in a 1963 law that required Swiss banks to report such accounts and to pay them, if unclaimed, into a federal fund. Under these conditions, and despite Swiss assurances to the contrary, many of the heirless assets lodged in Swiss banks remained dormant, the existence and extent only dimly comprehended by those beyond the halls of Swiss commercial banking.

Thus, despite sporadic diplomatic sallies — principally by the American government — and periodic representations by the World Jewish Congress, the issue of the postwar fate of looted gold and heirless assets slipped into a kind of limbo in the mid-1950s. Allied preoccupation with other issues — notably fighting the Cold War — and Swiss obfuscation combined to stymie any concerted effort to locate and free heirless assets.

The hibernation lasted until 1995, when a fortuitous combination of global events brought the issue of looted gold and dormant heirless assets once again to the fore and supplied it with a dynamic sufficient to ensure some sort of resolution to the unfinished business of the immediate postwar decade. The first factor was the end of the Cold War. The all-consuming East-West tension of the Cold War had powerfully served to suppress Allied willingness to pursue the twin issues of looting and restitution to their full conclusion in the 1950s. The West's eagerness to support the fledgling West German republic in the 1950s tended, for instance, to work against any over-vigorous enforcement of the reparation process. Undue economic strain could not be placed on the "German economic miracle" and West Germany had to be transformed into a pillar of the NATO alliance. Similarly, the Cold War trapped many Jewish victims of the war behind the Iron Curtain, where communist regimes had little interest in supporting their restitution claims. The collapse of the Soviet empire in the early 1990s thus freed the West to turn its attention to some of the unaddressed legacies of World War II. At the same time, the disintegration of authoritarianism in Eastern Europe freed Jews in these countries to engage in the search for restitution of assets stripped from them or their families in the Holocaust or believed to have lain dormant in foreign banks since the conflict.

Two factors in North America added to the forcefulness of events in Europe. While the World Jewish Restitution Organization had long exerted pressure for action on behalf of Holocaust victims and their financial claims, it took the emancipation of Eastern European Jewry and the publicity and research efforts of its sister organization, the World Jewish Congress (WJC), to finally give the campaign sufficient mass to command the attention of the world press and national governments. Led by Canadian-born businessman Edgar Bronfman, the WJC launched a concerted campaign against Eastern European governments for the return of property confiscated by Communist regimes. The WJC soon directed its energies towards Switzerland and the mysteries of dormant bank accounts. Determined to prepare itself as thoroughly as possible for these negotiations, the WJC set to work in the National Archives in Washington to document the wartime looting of gold and the postwar denial of access to unclaimed Jewish assets as fully as possible. In Washington, WJC researchers laboriously worked their way through the trove of Safehaven, OSS and diplomatic files that chronicled the tangled financial history of Nazi Germany and its neutral accomplices. In September 1995, Bronfman met the Swiss Bankers Association in Berne to demand disclosure and restitution of Jewish monies in long-dormant Swiss bank accounts. The bankers first suggested that their research had revealed the presence of US$32 million in these accounts and offered to settle on that basis. Bronfman rebuffed this offer, arguing that it was neither accurate nor did it acknowledge the moral dimensions of the situation. The bankers then agreed to another comprehensive audit of the dormant accounts preparatory to a final, mutually endorsed settlement.

As had been the case in the initial late-war crusade to uncover the secrets of Nazi wartime finance, the last and crucial ingredient in the reawakening of world interest in the fate of looted gold and dormant Jewish bank accounts was supplied by the moral and political fervour of the United States. New York Republican Senator Alfonse D'Amato, chairman of the influential Senate Banking Committee and a politician with a large Jewish American constituency, aligned himself with Bronfman and the WJC. The Banking Committee's power to revoke foreign bankers' licences to operate in the United States meant that D'Amato's interest in revisiting Switzerland's role as a neutral power and banker could not be lightly dismissed. In the spring of 1996, the coalition of D'Amato, Bronfman and the WJC prompted U.S. President Bill Clinton to empower Stuart E. Eizenstat, under secretary of commerce for international trade, to create a presidential task force to conduct a massive archival investigation of the whole wartime and immediate postwar history of Nazi gold. Over the next seven months, a staff of historians drawing on resources from eleven U.S. government agencies pored over 15 million pages of documents in Washington's National Archives. Their report, issued in May 1997, reconstructed in exact detail (as their report's title indicated) U.S. and Allied Efforts to Recover and Restore Gold and Other Assets Stolen or Hidden by Germany During World War II. Under Secretary Eizenstat's conclusion at the end of this huge investigation bears repetition:

> The cumulative facts and conclusions contained in this report should evoke a sense of injustice and a determination to act. Now, half a century later, this government's challenge is to complete the unfinished business of the Second World War to do justice while its surviving victims are still alive. To do justice is in part a financial task. But it is also a moral and political task that should compel each nation involved in these tragic events to come to terms with its own history and responsibility.(7)

Even before the Eizenstat team reported, other nations had responded. British historians and archivists at the Foreign and Commonwealth Office mined the records of the Public Record Office to produce two "History Notes" entitled "Nazi Gold: Information from the British Archives" in September 1996 and May 1997. Similar research was undertaken by the Bank of England. In Switzerland, such investigations quickly assumed the dimensions of an investigation into the soul of the nation itself. While Swiss bankers revisited the files of their dormant accounts in conjunction with the WJC under the chairmanship of former U.S. Federal Reserve Chairman Paul Volcker, the Swiss Parliament established a historians' commission — the Bergier Commission — to unravel the whole Swiss-German interaction in the war. Other commissions were directed to examine other aspects of Switzerland's war — for instance, Switzerland's postwar agreements with Eastern European countries. Elsewhere in Europe, other historians set to work. The German metal refiner Degussa, the alleged converter of looted gold into seemingly legitimate new gold, hired an independent historian to examine its records. Thus, by the spring of 1997, the issue of Nazi gold, Swiss neutrality and the postwar Allied efforts at restitution had become the focus of a nearly global historical effort — an effort with huge moral, financial and political implications.

Amid all this agitation and research, the word "Canada" never emerged. Although a signatory to the various Allied declarations on looted gold signed between 1943 and 1945, Canadian officials had not actively participated in either the investigations or the negotiations that revolved around the looted gold issue down to 1952. Canada is, in fact, not even mentioned in the thick and authoritative Eizenstat report or in its index. The encyclopedic bibliography accompanying the report contains only several innocuous files concerning military operations involving Canada but unrelated to gold. The British "History Notes" reports similarly do not mention Canada. Neither of the two best-selling books on the Nazi gold controversy — Tom Bower's Nazi Gold: The Full Story of the Fifty-Year Swiss-Nazi Conspiracy to Steal Billions from Europe's Jews and Holocaust Survivors (1997) and Adam LeBor's Hitler's Secret Bankers: The Myth of Swiss Neutrality During the Holocaust (1997) — contain a single mention of Canada in relation to looted gold or in any other context. Perhaps the closest Canadians get to the pain of the issue is the chilling reminder in LeBor's narrative that the group charged with sorting the loot stripped from Holocaust victims at Auschwitz was called the "Canada Kommando"[8] — perhaps an allusion to the belief that Canada was a remote land of plenty. Only by the summer of 1997 did Canada begin to appear in any of the Nazi gold literature and then only innocuously, in tables issued by the Swiss Department of Foreign Affairs showing wartime gold purchases by the country's central bank, the Banque Nationale Suisse.

Canada's quiescent role in the Nazi gold controversy ended abruptly on July 11, 1997, when Gordon Thiessen, the Governor of the Bank of Canada, received a letter co-signed by the president of the Canadian Jewish Congress (CJC), Goldie Hershon, Irving Abella, the CJC's past president and the co-chairs of Canada's National Holocaust Remembrance Committee, Myra Giberovitch and Nathan Leipeiger. The letter reported "with dismay" that the CJC had received from the WJC in New York news that documents recently uncovered in the scouring of the National Archives in Washington "indicate that Portugal and Switzerland swapped a significant amount of looted gold for gold held in the Bank of Canada and the Federal Reserve Bank of New York."Attached to the letter was a grainy facsimile of a document — probably generated during the era of Safehaven intelligence gathering — which gave details of the swaps. About six tons of gold appeared to be involved in a series of

swaps between Switzerland, Portugal and Sweden in 1942 and 1944. The undated document was said to be "from a very confidential source" and suggested that "measures" had been taken to disguise the origin of the gold bars in Switzerland that were at the heart of the swap. The bars in Switzerland were described as "probably tainted."

In response to the July 11th letter's request that "the Bank of Canada undertake an investigation to ascertain the involvement of the Bank in these transactions," the Bank immediately launched an examination of its archives. On July 28, a press release from the Bank confirmed that the Bank did have a role in the 1942 Swiss-Portuguese transfer of gold held in its vaults for safekeeping, but cautioned that much work remained to be done in the Bank's archives before the full story of the transfers could be known. Virtually nothing was known of the Canadian context in which these gold swaps took place, about the procedures followed by Canadian officials or about whether they were even aware of the implications of trading gold into neutral Europe in time of war. To do this, about "50 cubic feet" of documents would have to be examined at the Bank of Canada. Other departments of the Canadian government would have to be consulted and their documents surveyed.

The Bank then outlined the "next steps" in its investigation. It openly acknowledged the need for transparency in its investigations and in making public disclosure of the conclusions of these searches. It committed itself to making all documentation surrounding the transactions "publicly available as soon as possible to facilitate further research in this area." And it would secure the services of an outside historian to prepare an "independent assessment" of the Bank's role in the gold transactions of 1942-44 identified by the WJC document. The historian would be guaranteed "full access" to the Bank's archives and an "external review group" would be appointed to comment on the final draft of the historian's report.

. . . . .

On July 22, I was contacted by the Bank of Canada and asked to undertake the above investigation. After a brief negotiation in which the Bank's determination to sponsor an absolutely open and independent investigation of its wartime gold operations became abundantly apparent, I agreed to proceed with the investigation. In the subsequent memorandum of agreement, the Bank of Canada stated its "objectives" in undertaking the investigation. These were:

- to respond to public concern about possible Bank of Canada involvement in transactions related to looted Nazi gold during and after the Second World War
- to meet the Bank's requirement for openness and accountability by providing a report of its activities and by making its records readily available to other researchers
- to respect all applicable laws
- to protect the Bank's relationship with its existing central bank clients and
- to act expeditiously on the issue and obtain closure as quickly as possible.

As historical consultant, I agreed to "review all the Bank of Canada's documents related to gold transactions during the relevant period from the founding of the Bank in 1935 to 1950." Review of peripheral federal government documents, particularly in the Department of Finance, was also to be undertaken. A team of Bank employees was to be made available to help me gain access to relevant documentation. My report was to focus on the Canadian aspects of the gold transfers in question; the purpose of the exercise was "not to document the history of international gold movements during the war," although there might be cause to consult the "secondary results" of foreign research on the topic. I was also to advise the Bank "on the appropriate way to make the records accessible to other researchers." Last, I was asked to produce "a formal, annotated paper summarizing the results" of my investigation. I was to have "complete freedom" in drawing my conclusions. The report was to be published.

On August 12, I arrived at the Bank of Canada to begin the research that underlies this report.

Duncan McDowall
Ottawa
November 1997

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1. Stuart Eizenstat, coordinator, *U.S. and Allied Efforts To Recover and Restore Gold and Other Assets Stolen or Hidden by Germany During World War II*, Washington, May, 1997, p.iii.

2. Adam LeBor, *Hitler's Secret Bankers: The Myth of Swiss Neutrality During the Holocaust*, New York, 1997, pp.237-241. These proportions reflect a 1946 Allied estimate. Throughout the years covered by this report, the price of gold was fixed at US$35 an ounce.

3. Ibid., p.iv.

4. Eizenstat, op.cit., pp.iv-v.

5. "The Swiss National Bank's (SNB) gold operations during the Second World War," notes prepared by the Swiss Federal Department of Foreign Affairs, August 1997, http://www.eda-tf.ethz.ch/topics/top33_e.htm.

6. See: Eizenstat, op.cit., pp. xxxv-xxxix and Chapters 3-6, and *History Notes -- Nazi Gold: Information from the British*

Archives, Foreign and Commonwealth Office General Services Command, London, Part I, September 1996 and Part II, May 1997.

7. Eizenstat, op.cit., p.x.

8. LeBor, op.cit., p.6.

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Elm (10.0.0.3) : Solaris 2.6, Sun-Ultra-2 (creator) , Progress /Mail relayhost. SolticeBackup 5.1 Solutions, 256MB RAM, CPU 2X296MHz, **D1000 (9X9.2)** GB hard disk Local drives (OS) are Mirrored and used RAID5/HotSpare for D1000 using SolticeDiskSuite 4.1
Jukebox (Autochanger)

Erl4 : Solaris 2.7, Sun-Ultra-1 , host SilverPlater database , 416MB RAM,

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Due Diligence
A Report on the Bank of Canada's Handling of Foreign Gold During World War II

Earmarked Gold in Canada, 1935-56
Part I

THE BANK OF CANADA'S EARLY YEARS, 1935-39: ENGLISH FRIENDS AND ENGLISH GOLD

Canada was a latecomer to the world of central banking. By the time the Bank of Canada opened its doors on March 11, 1935, virtually every other industrialized, Western country had a central bank regulating its monetary affairs. In Canada, it had taken the collapse of national credit in the Depression and recognition that the gold standard no longer automatically regulated trade to dislodge the long-standing opposition on the part of Canada's commercial banks to the notion of state-sponsored intervention in the credit and currency of the nation. A royal commission report in 1933 had urged Canadian politicians to establish a central bank. A central bank would "regulate credit and currency in the best interests of the economic life of the nation, to control and protect the external value of the national monetary unit and to mitigate by its influence fluctuations in the general level of production, trade, prices and employment...and generally promote the economic and financial welfare of the Dominion."(1) Even with the pressure of the Dirty Thirties at their backs, Canadian legislators exhibited their habitual caution by making the new Bank of Canada a privately owned institution, thereby distancing it from possible political interference. Only the election of a new Liberal government in Ottawa in late 1935 paved the way for public ownership of the fledgling bank in 1936.

The young bank was headed by a young governor. Thirty-eight-year-old Graham Towers, a political economics graduate of McGill University, was deflected from a promising career at the Royal Bank of Canada and given the governorship in the hope that his presence at the helm of the new central bank would both serve Ottawa's monetary ambitions and allay the fears of the commercial banks. For Towers, there was a good deal of learning on the job. The Bank's organization had first to be designed and implemented, relations established with the chartered banks and contacts made with foreign central banks. Instinctively, Towers turned to the Bank of England for guidance. The venerable Bank of England on Threadneedle Street in the heart of the City — London's financial district — was the linchpin of world-wide central banking. Its redoubtable governor, Montagu Norman (1871-1950), had presided over its affairs since 1920, having come to the Bank after years in the City. Norman had long taken a keen interest in the promotion of central banking in the Commonwealth, lending his ideas and practical advice in the 1920s to the creation of central banks in Australia, India and South Africa. Only New

Zealand and Canada remained holdouts by the 1930s. Norman saw the addition of new members to the central bank club as a contribution to international monetary stability in the turbulent post-World War I period. As the Bank of England's historian, R.S. Sayers, has remarked, Norman "gave to Commonwealth affairs a measure of priority in the time he devoted to international affairs. He concerned himself not merely with the foundation of the new central banks but also, at greater expense to his time, to maintaining close contacts with them." In particular, the Bank of England was always ready "to help on specific problems as they arose" in the new Commonwealth central banks.(2)

Towers was quick to avail himself of the senior bank's good offices. In November 1934 Norman agreed to lend J.A.C. Osborne, the Bank of England's secretary, to the Ottawa bank as its first deputy governor. Osborne had wide previous experience with the Federal Reserve Bank of New York and with European central banks. It was intended that he would apply this expertise to Canada's new central bank as Towers' first lieutenant. Osborne would stay until 1938, when he returned to become Norman's special adviser. Osborne later returned to Canada during the war as part of the British Supply Board and always maintained friendly, informal ties with the Canadian central bankers. "I have been happy to hear accounts of you from time to time," Norman's adviser, Harry Siepmann, wrote to Osborne in the spring of 1936, "which show that you like the Canadians almost as well as they like you..."(3) Canada had other London financial friends who were close to the Bank of England governor. The Canadian-born expatriate financier Sir Edward Peacock, for instance, sat on the Bank of England board from 1929 to 1946 and frequently figured in Anglo-Canadian monetary relations, as well as acting as financial adviser to the Royal Family.

Towers soon became a frequent visitor to Threadneedle Street. Shortly after his designation as governor in 1934, he went to London to consult with Norman. The Bank of England's official history notes that "Towers was disappointed at the limits to Norman's capacity to advise" on technical matters, but despite this the correspondence between the two on matters of general banking interest "went far beyond common courtesies." Towers quickly became "the most highly regarded" Dominion central banker in London.(4) (In 1943, it was even rumoured that John Maynard Keynes favoured Towers as a successor to Norman.(5)) In the summer of 1935, Norman visited North America and made a call on Towers in Ottawa -- "to call & make a bow to you."(6) While in Ottawa, Norman presented the Bank of Canada with a ceremonial inkstand, a gift that Towers told his directors the Canadians would reciprocate.(7) On Norman's return to England, he confirmed his esteem for his new acolyte in the Dominion: "I like to think that someday we shall get a harvest of cooperation from these early seeds of contact between our Banks!"(8) Throughout the late 1930s, whenever Towers returned from a visit to London, he presented his "impressions," often formed in Norman's office, of European monetary conditions to the Bank of Canada board.(9)

The intimacy of two central bank governors soon had practical outcomes for the young Canadian organization. In July 1935, Towers proudly told the executive committee of the board of directors that the Bank of England topped the list of 16 central banks that had opened drawing (i.e., cash deposit) accounts at the new central bank in Ottawa.(10) Soon after, discussion between the two banks turned to the idea of Britain acquiring Canadian gold and accumulating it in the vault of

the Bank of Canada. The practice was not entirely new; in World War I Britain had established its first overseas gold reserve in Ottawa to serve as security for its purchases of war material in the United States. As deputy governor of the Bank of England from 1918 to 1920, Montagu Norman was privy to the late stages of these arrangements.(11)

Early in 1936, Britain again became interested in the idea of holding gold in Canada. In February, Towers informed Norman that the Bank of Canada was receiving "$8-9 million in producer gold a month" and inquired whether the Bank of England might be interested in purchasing some of it to hold on reserve in Ottawa. Norman was immediately interested and by April was assuring Towers that the Bank of England welcomed the prospect of "bidding regularly for your weekly offerings of gold."(12) In a personal letter to Deputy Governor Osborne, Harry Siepmann wrote that the Bank of England found the gold purchase plan "welcome." It was "of obvious advantage to you" -- finding buyers for Canadian gold -- and appealed to London because it might provide gold at slightly below the New York price.(13) Within days, Osborne noted in an internal memorandum that the Bank of Canada had "earmarked for the Bank of England gold valued at some $9 million, and this may be increased from time to time before the account is closed. While it seems unlikely that the Bank of England would normally keep some gold here, such development is not impossible, especially in case of war."(14) Thus began the practice of the Bank of England "earmarking" gold in the vaults of the Bank of Canada.

In some respects, the importance of gold in Canada's monetary arrangements had steadily faded in the early decades of the twentieth century. In 1914, the federal government had suspended its long-standing commitment to redeem its notes — the national currency — in gold. Since the 1850s, the Canadian banking system had been anchored by the gold standard — the assurance that gold was always available in exchange for circulating currency, thereby stabilizing the external value of Canada's currency. After the war, there was pressure for a return to the gold standard. Indeed it was restored briefly in the late 1920s, but the linkage of gold to the external value of national currency proved too difficult in the volatile postwar economy. One of the pressures behind the creation of a Canadian central bank was the need to restore some degree of national leverage over the external value of the dollar. The Bank of Canada was therefore empowered to deal in gold and foreign exchange on international markets in order to "offset" other pressures on the external value of the currency.

WHAT IS FINE GOLD?

The public envisages central bank gold as piles of gold bars secreted in subterranean vaults. The gold bar, and occasional other forms of refined gold such as coins, minted bars and buttons, has evolved principally as a means of transporting and storing gold in relatively constant proportion. A gold bar usually weighs about 400 ounces or 11.4 kilograms, but most bullion markets -- London, New York, Tokyo and Zurich -- will accept bars ranging in weight from 350-430 ounces. Virtually all bars are, however, close to 400 ounces, so that an imperial ton (2000 pounds or 32,000 ounces) contains about 80 bars of gold. For purposes of calculating the actual worth of gold, banks deal gold in terms of "fine ounces".

A gold bar, however meticulously refined, will always contain some small impurities, so that the purchaser in fact receives very slightly less than 400 ounces of real gold. To alleviate this problem, gold bars are assayed and the actual purity is then stamped on the bar together with a registration number. For a bar today to be considered "good delivery" by the London Bullion Market Association, it must be "not less than 995 parts gold in 1000 parts". All bars bear this "purity mark" plus the name of the melter/assayer. Thus, the actual worth in "fine gold" (ie free from dross or impurity) of any gold bar is obtained by multiplying the nominal weight of the bar by its purity. Gold trades are subsequently recorded in fine ounces, not bars. Bar counts are noted simply for purposes of storing and shipment. During the years covered by this study, the price of gold was fixed at US$35 per ounce. A gold bar was therefore worth approximately US$14,000 and a ton of gold approximately US$1.1 million.

Gold featured in other aspects of the Bank of Canada's charter.(15) The Bank was empowered to buy and sell gold. Any citizen tendering "the purchasing price in legal tender" could buy a bar of gold from the Bank, although this clause was almost immediately suspended. As the sole issuing-authority for the national currency, the Bank was to maintain a reserve of gold coin or bullion that was equivalent to not less than 25% of the value of its notes and deposit liabilities. To this end, plans for the Bank's head office on Ottawa's Wellington Street included provision for a subterranean vault built right into the Laurentian Shield. The act also stipulated that the same vault would be used to hold all gold coin and bullion transferred by Canada's chartered banks to the new central bank. Last, the Bank of Canada was given the power to open accounts in other central banks and in the Bank for International Settlements [BIS] or to act "as agent, depository or correspondent of such other central banks" or the BIS. Thus, the earmarked gold account was considered a normal and anticipated part of the Bank of Canada's mandate from the date of its inception.

Gold had other implications for the young Bank of Canada. In a decade in which the Depression drained the vitality out of the primary sectors of Canada's economy, gold production provided some positive news. Despite the disappearance of gold coinage, a kind of "gold mentality," as one author described it, gripped the developed economies. This mentality was rooted in the belief that gold alone could provide individuals and nations alike with a movable, valuable commodity that in times of economic hardship would retain its international value.(16) Canada's ability to feed the world hunger for gold was also facilitated by a steady drop in the cost of gold production during the deflationary Depression and by the fact that in 1935 the United States hiked the price of gold from US$20 an ounce to US$35 an ounce. Throughout the 1930s, gold production therefore increased dramatically in Canada. Its dollar value, calculated on the fixed rate of US$35 an ounce, rose from US$39 million in 1928 to US$178 million in 1939; world production in the same years grew from US$406 million to US$1.36 billion.(17) By the decade's end, Canada was rivalling the United States as the third largest producer of gold in the world, trailing only South Africa and the Soviet Union. Most of Canada's production was exported as non-monetary gold, while a small proportion of it was purchased to add to the stock of monetary gold held by the Bank of Canada.

As world demand for gold grew in the Depression, Ottawa

As world demand for gold grew in the Depression, Ottawa asserted its control over the trade. The Royal Canadian Mint became the principal refiner of Canadian gold into "good delivery" bars and the Department of Finance became the sole regulator of gold exports out of Canada. In 1932, "an act respecting the export of gold" was passed to stipulate that no gold could be exported out of Canada without a licence from the minister of finance. Only chartered banks might apply for such licences; in 1935 the act was amended to entitle the new Bank of Canada to apply for such licences.(18) The act was designed to assure the Canadian government that it would have a secure supply of foreign exchange from gold sales with which to service Canada's large foreign debt. In 1937, another federal act prohibited the use of "gold clauses" in financial arrangements, thereby ending the right of a creditor to claim settlement of a claim in gold. Such obligations were now to be settled only in the legal tender of the country. Thus, gold production was brought under tight federal control and as such was used as a powerful point of leverage on national economic performance in a decade of generally dismal economic times.

WHAT IS EARMARKED GOLD?

Earmarking is a courtesy function performed by one central bank for another central bank. It entails the delivery of gold owned by one central bank into the safekeeping of another central bank. The Bank of England's historian R.S. Sayers has suggested that the modern practice of earmarking began in the 1920s, when England was temporarily off the gold standard and the Bank of England decided to allow its central bank clients to store gold in its vaults to allow them to use such gold as security on advances made to them by the Bank (R.S. Sayers, The Bank of England 1891-1944, Vol.I, London, 1976, p.333). Earmarking soon acquired other purposes: providing off-shore cover for commercial transactions, providing a holding facility for purchases of newly-minted gold and in times of international tension allowing the dispersing of national gold to foreign safehavens. Once a sufficient number of central banks had established earmark accounts abroad, the possibilty existed that they could simply swap amounts of earmarked gold by legal transfer on paper rather than actual physical exchange.

Host banks did not pay interest on earmark deposits, usually only levying a small handling charge to cover the cost of physically handling the gold on its arrival and departure from the host bank. The host bank assumed no legal control over the earmarked gold in its keeping. The arrangement was much like that enjoyed by a commercial bank client renting a safety deposit box. On instruction by the client the bank was obliged to open the box and deliver the contents into the client's hands without question.

When the Bank of Canada opened an earmark gold account of its own at the Federal Reserve in New York in 1935, the deputy-governor of the Fed described the earmark function with succinctness: "We will earmark gold which is your property and will hold it subject solely to your instructions, giving to any such gold which is left in our custody the same care which we give to our own similar property but beyond that assuming no responsibility" (J.E. Crane to Towers, January 26, 1935, BOC file A19-12A). A year later, Harry Siepmann of the Bank of England put it more simply in a letter to the deputy-governor of the Bank of Canada: "Earmarking is a routine activity of any full grown Central Bank and one of the normal forms of co-operation for mutual advantage" (H.A. Siepmann to J.A.C. Osborne, July 31, 1936, BOC file A18-17).

Thus, the prospect in 1936 of the Bank of England opening an earmark account at the Bank of Canada was doubly tantalizing. Not only would it bring the kudos of the world's senior central bank bestowing an account on the world's newest central bank, but it also offered the prospect of inducing the Bank of England to use the account as an export conduit for Canadian gold minted at the Royal Canadian Mint, to be bought by the British and stored in the vault of the Bank of Canada. The trick would be to partially wean Britain from its dependence on South African gold. As an inducement to this end, Ottawa offered to cover the shipping expenses to New York and London on gold bought at the Royal Canadian Mint, thus making it marginally cheaper than American and South African gold. Furthermore, in order to allay any earmark client's fear that their Canadian-held gold might not be immediately exportable, the Bank of Canada obtained a "general undertaking" from the minister of finance that an export licence would always be granted when the earmark client wanted to remove its gold from Canada.(19)

These arrangements proved sufficiently attractive that the Bank of England began buying Canadian gold and placing it on earmark in Ottawa in the spring of 1936. At first, the British thought of the account as a short-term commitment, one that gave them a small bargain in the price of new gold and also helped them to capitalize on shifts in value between the pound and North American currencies. The intention was to ship English gold held in Ottawa to the Federal Reserve Bank of New York, where it would be applied to supporting a large credit that the Bank of England had given the Bank of France. Early on in this pattern of purchases, Montagu Norman told Towers that the arrangement "was working quite satisfactorily and I have no wish to set any particular limits on the amount for the present."(20) Within the Bank of Canada, a regularized earmarking procedure was developed whereby the Bank of England's gold purchases were delivered from the mint to the Currency Division, where they were duly registered in the Bank's gold ledgers. "I have this day received from the Royal Canadian Mint 109 gold bars Nos. 2735 to 2843, of the gross weight of 44,236.375 ounces, containing 44,093.461 fine ounces," the Bank's secretary, Donald Gordon, was typically informed by the Currency Division in May 1936. "This gold is being held in safekeeping for the Bank of England."(21)

The Bank of Canada clearly saw the opening of the British earmark account as serving both its own ends and those of Canada's gold producers. Senior managers at the Bank did everything they could to preserve the account. Towers, for instance, assured Norman that the Canadian government was "committed to settle with mines on the basis of [the] best market price obtainable converted at current rate of exchange..." for the Bank of England.(22) In 1937, the mint in Ottawa even agreed to change the shape of the gold bars it produced to conform to "those favoured on the London market."(23) At the same time, Deputy Governor Osborne promised that the English earmark account would be cloaked in secrecy and that the Bank of Canada would not publish the names of its earmark clients and "should treat with silent contempt the suggestion that the Bank of England might be one of them." Only the Canadian government would be told *confidentially* if the Bank of England had a substantial amount of gold on earmark in Canada.(24)

Given these auspices, it was not surprising that the Bank of England continued to expand its Canadian earmark account. Canada was a safe and convenient place to earmark gold. Safe because Ottawa and London had established a close and friendly central banking relationship. Convenient because

the Royal Canadian Mint supplied gold at an attractive price and also because the Bank of Canada was, relatively speaking, on the doorstep of the Federal Reserve Bank of New York, where the Bank of England had frequent business to transact. Late in 1936, the Bank of England therefore asked Ottawa to "continue to give us the opportunity to bid for newly produced Canadian gold as it comes forward" and announced that London would now pay its own shipping charges on the purchases.(25) By the end of 1936, the Bank of England had 3,304 bars, or 1,335,588 fine ounces, of gold on earmark in Ottawa. A year later, the total reached 4,748 bars or 1,915,435 fine ounces.(26) The Bank of England's early satisfaction with its Canadian earmark account would in the near future act to Canada's advantage in other ways, as the London bank began to refer would-be European earmarkers to the Canadian bank for their needs. As the clouds of war began to gather over Europe later in the decade, the Bank of England was predisposed to point anxious European bankers in Ottawa's direction. The phrase "whenever we were asked to introduce one of our Continental friends to the Bank of Canada" regularly appeared in London's correspondence with Ottawa.(27)

In the short term, however, only one other prewar earmark account materialized. The Bank for International Settlements (BIS) was a Swiss-based legacy of World War I. It had been established in 1931 in Basle to oversee the reparation payments agreed to by Germany after the war. All of the European central banks contributed to its establishment and were represented on its board. In effect, the BIS became the central bankers' central bank. Although Germany never fulfilled all its reparations commitments, the BIS remained active in interbank and various commercial transactions. Since it had no central bank in 1930, Canada was not a signatory to the Hague Agreement that established the BIS, but the BIS nonetheless kept a money account at the Bank of Montreal to facilitate its Canadian operations. When the Bank of Canada opened in 1935, the BIS requested the transfer of its Bank of Montreal account to the new Canadian central bank.(28)

The BIS's money was converted into 12,819 fine ounces of earmarked gold by the Bank of Canada and in November was shipped to New York. A year later, the BIS arranged for the mint in Ottawa to melt down U.S. gold coins obtained in San Salvador into gold bars, which were then earmarked -- 16,908 fine ounces -- at the Bank of Canada. After this deposit, the BIS earmark account in Ottawa remained inactive until after the war.

Thus, by 1939 the Bank of Canada had established earmark accounts with two prestigious European counterparts in the world of banking. The small BIS account with only 42 bars of gold was dwarfed in importance and size by the thousands of bars of British gold that sat in the Bank of Canada vaults. These early earmark accounts in Ottawa reflected straightforward, accepted banking practice. They were intruded upon only by the federal government's monopoly right over gold exports from Canada: here the minister of finance had given assurance that an export licence would not be denied an earmark account-holder. To this uncomplicated arrangement, each party brought its own self-interest. Earmarking flattered the Bank of Canada's desire to join the club of international central banking and Ottawa's strategy of selling Canadian-mined gold onto world markets. From the European perspective, an earmark account in Ottawa offered access to attractively priced Canadian gold and the opportunity of storing it in close proximity to the Federal Reserve Bank of New York. As the first tremors of war were felt in 1938, other factors began to intrude into the business of

earmarking gold in Canada. What had initially been simple banking was about to acquire a geopolitical cast.

EARMARKING AND WAR: 1938-40

The Bank of England's earmark account in Ottawa saw little activity through 1937; the correspondence file for that year is thin and routine. The spring of 1938 brought it alive. Austria fell under Germany's shadow. The Sudetenland followed. The aggressive German impulse that built to the Munich crisis that September may have been temporarily appeased on the diplomatic front by the blandishments of Britain's prime minister, but it set Britain's bankers wondering about the potential monetary safety of the realm. On March 31, 1938, Graham Towers received a "very secret and personal" cable from Harry Siepmann, special adviser to Montagu Norman. "The Governor asks me to put to you the following," Siepmann began, "please consider and reply by cable on Monday if possible what would be the attitude of the Bank of Canada if the Bank of England were to propose to accumulate gold in Ottawa by purchase, transfer and shipment from other centres, up to an amount of $250,000,000 or more..." Siepmann also offered to let the Canadian mint melt down gold coins held by Britain in Ottawa and add them to this deposit.(29) Norman was clearly shifting Britain's attitude to the earmarking of gold in Ottawa. The account was no longer to be just a means of acquiring Canadian gold, but was now to become a line of national monetary defence -- an offshore store of national gold beyond the reach of potential European belligerents. Gold was now to be *shipped* to Ottawa, not just bought there.

It is indicative of the empathy between the two central banks that Towers replied on schedule to Siepmann on April 2. Before doing so, he telephoned Canada's minister of finance, Charles Dunning, to gain assurance that any addition to the Bank of England's earmark account in Ottawa would automatically be given an export licence. Dunning agreed. Towers therefore cabled Siepmann that his bank was "willing to receive gold in amount of two hundred and fifty million dollars or more." He did however warn London that "substantial imports of gold over short period of time would no doubt attract attention." This was not an "objection," he added, simply something to consider. Towers also pointed out that until the Bank of Canada's new Ottawa headquarters building was opened, there would be insufficient space to store such gold. The new vault would be adequate. Towers then assured London that the matter had been discussed "very confidentially" with Finance Minister Dunning.(30) "As a parting note," he again cabled London two days later, "let me say we are most willing to be of assistance in any way we can."(31)

In early May 1938, the Bank of England began moving gold to Ottawa. Governor Norman had forewarned his fellow governor Towers that his plan was to shift gold earmarked for the Bank of England at the Banque de France in Paris to Ottawa by shipping it to the Channel port of Cherbourg, loading it on board Canadian National steamships and delivering it to Quebec or Montreal. He agreed that such large movements of gold would attract "some publicity," but that his bank would do its "best not to attract undue attention and comment." Since direct shipment of gold out of London might excite alarm in England, Norman would try to avoid this option. Some gold, he cautioned Ottawa, "will reach you by devious and unexpected ways." In all this, he was "most grateful to you" and the minister of finance.(32) On May 9, the first shipment of British gold arrived in Canada. The Bank of Canada's new vault was ready just in time to receive it.

Specially chartered trains brought the gold to Ottawa and the Bank hired some Mounties to oversee its unloading. Unfortunately, Towers reported to London, a "stray journalist" had seen the train arrive in Ottawa. Telephone calls from the press followed. The "press loves mystery," Osborne complained to Siepmann when garbled accounts of the gold's purpose began appearing in the press.(33)

Throughout the summer of 1938 the gold kept coming, until in October Deputy Governor Donald Gordon reported to London that the last two shipments had arrived and been stored "without a single word of press comment."(34) Throughout this accumulation, the Bank of England continued to buy gold at the mint and also began to use its Ottawa earmark as a means of satisfying its gold needs in New York. At the year's end, the Bank of England had 10,219 bars of gold -- 4,087,731 fine ounces -- worth $143,069,592 (35) safely ensconced under Wellington Street. The amount rivalled the gold held by the Bank of Canada on its own account in the vault. Towers proudly reported the growth of the Bank's foreign gold on earmark to the board of directors, almost as if the Bank were coming of age.(36) The spring of 1939 brought no easing of tensions in Europe and served to broaden the anxiety of its central bankers. The idea of dispersing national gold out of harm's way began to find appeal in other European financial centres. On March 22, Towers talked by telephone with Bank of England senior official G.F. Bolton, who told him that the Banque Nationale de Belgique had inquired about the safekeeping of gold in Canada. The Belgians were thinking of placing $25-$50 million in gold in Ottawa. Towers noted in a memo that he immediately said "yes" and promised to let London know what fees would be involved in such safekeeping.(37) Within two weeks, Bolton was back in touch with Towers with news that additional inquiries about Ottawa safekeeping had been received from the Swiss central bank -- the Banque Nationale Suisse -- and the Banque de France. The Banque de France had "definitely made up its mind" to send £30 million in gold to Canada and preparations were under way to make the first shipment in mid-April.(38) Although all three of these banks -- the French, Belgian and Swiss -- had maintained regular financial relations (e.g., drawing accounts) with the Bank of Canada since soon after it had opened in 1935, it is interesting to note that all these approaches concerning safekeeping facilities in Ottawa were made *through* the Bank of England.(39) For his part, Governor Towers devoted his thoughts to ensuring that the Bank of Canada would have sufficient storage space for more foreign gold and how much to charge for such services. On a visit to New York and Washington that same month, Towers made enquiries of the Americans about proper fees and concluded he had no desire to "make money out of the situation" and would simply try to recover the actual cost of handling foreign gold.(40)

Amid these inquiries, the British reinitiated their own transhipment of gold to Ottawa. In late April the British battleship *Repulse* slipped quietly into the port of Quebec and unloaded gold bullion onto a train for Ottawa. Back in Ottawa, plans were drawn up for special shelving to be added to the new vault. When one young Bank employee first glimpsed the Bank's new vault in 1938, he had thought it was "as cavernous as Fort Knox." By mid-1939, he remembered that gold was by necessity being stacked on the floor to save space. Crawl spaces were left between the stacks to enable the Bank's auditors to verify that the stacks were all gold.(41) Throughout the rest of 1939, the British earmark account in Ottawa became the centre of intense activity. Gold bars and coin continued to arrive from abroad as well as gold from

England itself, delivered by warship to Halifax, Vancouver and Quebec. From this growing hoard, some gold was despatched to New York where England was already using it to support its wartime spending in the United States. British gold reserves in Ottawa peaked at $346 million in early September and then slipped back to end the year at $251 million.(42)

Nothing came of the Swiss and Belgian inquiries about safekeeping in 1939, but the French acted on their declared intention, thereby becoming the Bank of Canada's third foreign earmark client. Without even waiting for complete Canadian approval, France began shipping its first consignment of gold -- 403,516 fine ounces -- across the Atlantic in April. Towers hurriedly confirmed with the deputy minister of finance, W.C. Clark, that the finance minister would extend the right of an export licence to the French when they desired to remove their gold from Canada.(43) On May 1, 1939, Towers therefore wrote to the governor of the Banque de France to confirm the opening of the account, citing the stock description of the earmark arrangement -- "We will earmark and hold gold for your account, providing the same facilities for the custody of such gold as we provide for the custody of our own similar property, but beyond that assuming no responsibility."(44) Given this assurance, the Banque de France built up its earmark account in Canada with astonishing rapidity. By the end of 1939, it rivalled the Bank of England's account in Ottawa with 17,531 bars of gold -- 7,088,094 fine ounces -- worth approximately $250 million. Such heavy volume movements of gold attracted press attention, but the Bank of Canada did its best to appear shy in the face of such interest. Towers would only tell the Montreal *Gazette* that "quite a bit" of gold had come to Ottawa. The *Wall Street Journal* was not as easily put off and wrote that Canada had more than doubled its holding of earmarked gold in 1939 in "the largest earmarking operations conducted in Canada."(45)

Other French gold was shipped directly from dockside in Canada to the Federal Reserve Bank of New York to service France's early war contracts in the United States, thereby joining British shipments of gold from its Ottawa earmark to settle accounts in New York. Just after war broke out in September, Congress in Washington had convened in special session to modify America's usually stringent neutrality law to allow Allied powers the right of purchasing war matériel in the United States on a "cash and carry" basis -- pay on the spot and take your purchases away in your own vessel. Such transactions required abundant amounts of U.S. dollars or gold convertible into such hard cash. Ottawa's nearby store of British and French gold, which could be safely shipped to the Federal Reserve free of attack from Axis submarines, now assumed an added advantage.

The coming of war thus dramatically expanded the volume of the Bank of Canada's earmarked gold business. It added a new client -- France -- and, thanks to the Bank of England, put the idea of earmarking in Canada in the minds of other European central banks. But this increase in business did not oblige the Bank to forsake the original definition of its responsibility as host bank to an earmark account. It assumed "no responsibility" beyond a simple custodial one. Through the "phony war" of late 1939 and early 1940 this definition held. But there were already signs that difficult decisions lay ahead. In December 1939, for instance, Towers received a letter from the head of Sweden's central bank, the Sveriges Riksbank, asking about the prospects of opening a U.S. dollar account in Canada. In a "personal and strictly confidential" reply, Deputy Governor Donald Gordon assured the Swedish bank governor that if Sweden were invaded and taken over by

another power that the Bank of Canada "would do our utmost to protect your interests and that any order to transfer, which we had reason to believe had been given under duress, would be ignored as a matter of ordinary banking procedure." It was hard, Gordon added, to answer such hypothetical questions "categorically."(46)

The German *blitzkrieg* of the spring of 1940 would bring new earmark clients and the first pressure on Ottawa to adapt the definition of earmarking to the circumstances of war. What had been hypothetical soon became matters of hard choice.

EARMARKING UNDER PRESSURE: 1940-41

At the beginning of 1940, the Bank of Canada had three foreign earmark accounts on its books. By the end of the same year, there were eleven accounts, ranging from the burgeoning Bank of England account with an all-time peak of 60,575 bars at the end of the year, to several accounts -- for the Bank of Bolivia, the Banque Melli Iran and the Bank of London and South America (explained in greater detail later) -- that were open but as yet contained no gold. In 1940, an incredible inflow of 134,798 bars of foreign gold arrived at the Bank of Canada for safekeeping. This proliferation of accounts was driven by the German army's incursion into the countries of the north European plain and Scandinavia. Countries once free became occupied and their governments desperately sought ways to protect their central bank gold from predatory hands. They were only partially successful; large amounts of French, Belgian and Dutch gold fell into Axis hands and were quickly consumed by the German war machine. Here was the origin of the looted gold that Germany masterfully laundered through neutral countries and which would prove so difficult to trace after the war. Gold that escaped such looting did so in many ways. In many cases, panicky European central bankers were pointed in Ottawa's direction by the Bank of England. The common urge behind this flight of capital was to find a safe haven where the gold was beyond German reach and where it would be at the service of a government in exile. From the outset, this rush of gold across the Atlantic would place the Bank of Canada, and other wartime decision-makers in Ottawa, in the awkward position of redefining the Bank's responsibilities to holders of earmark accounts.

The first and thorniest problem was France. As the French government disintegrated in the face of the German assault of the late spring of 1940, the Banque de France desperately sought to remove its gold from its homeland. Some was captured, some was already abroad in Ottawa and other portions were put aboard warships and ended up in Dakar, West Africa. France had become an "occupied" country in Allied eyes. Back in France, the puppet Vichy government tried to assert a claim as the legitimate owner of France's central bank gold held abroad. In mid-July, Canada's senior foreign policy official, O.D. Skelton, the undersecretary of state for external affairs, was informed by the secretary of state for Dominion affairs in London that Britain was "blocking the assets of the Bank of France and should be glad if the Canadian Government would do likewise."(47) On July 31, Canada obliged Britain by passing Privy Council Order #3515 which "in consequence of the invasion of France by enemy forces" stipulated that all French assets domiciled in or controlled from Canada should be placed under the control of the custodian of enemy property, an office established in 1939 to "freeze" assets in Canada that might be employed to the enemy's advantage. By definition, this included France's earmarked gold and U.S. dollar account in Ottawa. But it quickly became apparent that there was no unanimity of opinion on the issue. A day later Finance Minister J.L. Ilsley

issued an order that exempted the French gold from control of the custodian and instructed the governor of the Bank of Canada to act as his "agent for the control of these assets." Towers was not, however, to allow any disposition of the French gold and foreign currency without the finance minister's permission.(48) For the first time, the earmarking of gold had been coloured by political considerations.

From August to October of 1940, Ottawa's wartime policy-makers wrestled with the question of France's earmarked gold. On the one hand, there was persistent pressure from London to free the French gold so that it could be put to the use of the general Allied cause, thereby ultimately expediting France's return to freedom. In particular, France's cash and gold in Ottawa might be applied to "cash and carry" purchases of war matériel in the United States, where the French government had made contracts before its fall. Such contracts could still be honoured with French assets in Ottawa. To make this case, the British sent Sir Frederick Phillips, a senior Treasury official, to Ottawa to argue the case for freeing the French gold from wartime freezing. Late in August, British Prime Minister Churchill even cabled Ottawa, urging it to apply French resources in Canada to Britain's immediate wartime fiscal needs. Contrary to this view was the belief that Canada had a fiduciary responsibility to the people of France and that wartime expediency should not override the inevitable postwar obligation to restore France's gold to its rightful owners.

At the Bank of Canada, Towers saw the debate over the French gold as a debate "purely" between two governments and that his role was to act "as a messenger." He was conscious that Prime Minister King and his principal foreign policy aide, O.D. Skelton, had long held an autonomous line in their relations with Britain. Canada must distance itself from Britain's international agenda; it must cease acting out of colonial obedience. King told Sir Frederick Phillips that the French gold question "should not be opened up at this time" and then in typical King fashion he bought time by telling Churchill in early September that his War Cabinet had given the issue a "most careful examination" and that a subcommittee would study the issue.(49) It can also plausibly be suggested that King's hard-line position was moulded by his sensitivity to Quebec's possible reaction to any perceived move to liquidate French assets in Canada. King's Liberal Party was crucially dependent on Quebec support and any precipitous move on French currency or gold in Canada might easily be presented by King's political foes in Quebec as caving in to rabid, pro-British forces in English Canada. Skelton reinforced the prime minister's political instincts with arguments based on what he considered the moral obligations of a banker. "I consider that a trustee who substitutes an IOU for gold is not living up to the terms of his trusteeship, explicit or implicit," he told Towers in mid-September.(50) Only in absolute dire circumstances could French gold be employed by the Allies.

For his part, Towers (carefully noting that he was speaking as "an individual citizen") begged to differ with his prime minister. "I feel strongly," he wrote in early September, "that there is nothing in the slightest degree immoral in making use of such assets....If at the time of the debacle in France there had been four thousand fighting planes owned by the French in Canada, would anyone suggest that these planes should have been packed away for the duration of the war?"(51) Planes, Skelton responded, were not the same thing as gold. Gold carried a "sacred" value that made a depositor of gold "consider he has been gypped if he isn't given back gold or some instrument as certain to be exchangeable for equal

value" when hostilities ended.(52)

And so the debate went through the fall of 1940, until on November 16 the prime minister had his way. All French gold and cash balances were to be put under the authority of the custodian of enemy property and the Bank of Canada was instructed by Finance Minister Ilsley to transfer control of French assets to the custodian.(53) Mackenzie King had prepared the way for the decision by telling Churchill that it was best to maintain the status quo and implied that if the Allies were ever in dire need of the French assets the custodian could be directed to deliver them into Allied hands.(54) This threshold was never crossed in Ottawa's mind and for most of the war France's earmarked gold -- 10,581 bars of it -- remained frozen in the vaults of the Bank of Canada until the fall of 1944, when control of the gold was duly returned to the Banque de France once it had reestablished itself in Paris. Canada had thus altered the conditions under which it was prepared to provide safe haven for foreign gold; it had weighed its own, admittedly political, needs against the needs of its British allies and had decided to be guided by domestic interests. The decision was taken after vigorous discussion between the prime minister's office, the departments of Finance, External Affairs and Justice and the Bank of Canada. Britain had been listened to and, judging by correspondence around the November 1940 decision, the British were prepared to agree that action on the French account could "wisely be deferred."

Other fugitive gold from Europe found a quicker and more open reception in Ottawa in the summer of 1940. While the drama of the Banque de France situation unfolded, the Bank of England headed three other European central banks in Ottawa's direction as they sought to protect their nations' monetary wealth from the German onslaught. First came the Norwegians, whose country had fallen under occupation in April. On June 10, the Norwegian minister in London cabled the Bank of Canada telling it that he had instructed the Bank of England to forward bullion worth £2.5 million to Ottawa for safekeeping and setting out the names of those who would have signing authority over the account.(55) Almost immediately, the gold was shipped. The Bank of Canada was initially confused. "We are uncertain as to whether any of the instructions we have received can be considered as instructions emanating from authorized officials of the Royal Norwegian Government," the Bank's secretary queried the Department of External Affairs, "...we should like your advice."(56) By mid-August, the Bank had 951 boxes of Norwegian gold in its vault and still no clear idea of who controlled it. Governor Towers wrote to Finance Minister Ilsley to inquire whether the gold should be delivered to the control of the custodian of enemy property or whether, if Canada recognized the legitimacy of the Norwegian government in exile in London, it was still under Norwegian control. On August 19, Ilsley confirmed that the Bank should oblige the Norwegian government in London and that the gold was therefore "freely disposable" and beyond the reach of the custodian.(57) "This appears to settle the question satisfactorily," a Bank official wrote to Norman Robertson at External Affairs.(58) Later in the fall, the governor of the Bank of Norway came to Ottawa to inspect the 589,834 fine ounces of gold earmarked for it in the Bank of Canada.(59) By the end of 1940, the Norwegian government had 1,335 bars of gold -- 1,098,263 fine ounces -- on earmark in Ottawa.

July 1940 brought two more European central bank clients displaced by war. On July 8, the deputy governor of the Bank of England cabled to request that 59,524 fine ounces be

transferred out of its account and credited to Bank Polski, the Polish central bank. More gold arrived by ship from England in early August, giving Bank Polski 325,006 fine ounces in *safekeeping in Ottawa*.(60) Bank Polski's Ottawa earmark had convoluted origins. In June, it had arranged with the Banque de France to tranship much of its central gold reserve to Canada. Unfortunately, the French diverted the Polish gold to Dakar, West Africa, where it became mired in a wartime diplomatic tug-of-war. England then applied pressure for French gold now blocked in Ottawa to be released into Polish ownership. In the face of these demands, Canada took a passive attitude. "The attitude taken by the United Kingdom Government is understandable," Towers told O.D. Skelton, "and we have no comments to make." The Bank of England then appears to have begun transferring gold from its acount to the Polish account in Ottawa. On August 15, Governor Towers wrote to Finance Minister Ilsley telling him that Bank Polski had been a client since before the war and that on July 5 "we were advised by the Bank Polski that the President and managers of the Bank had come to London and were occupying space in the Bank of England." The Bank of Canada was therefore "taking the view that they are for the time being domiciled in London, England, and that the assets which they have with us are freely disposable and do not come within the control of the Enemy Property Custodian." Ilsley agreed.(61)

Unlike the inactive Norwegian account, the Polski Bank account took on a more active wartime role. Late in September 1940, Deputy Governor Donald Gordon met with the Polish consul general in Canada and the Polish minister plenipotentiary in England. The Poles asked to open a second account at the Bank of Canada to serve the needs of the Polish government in exile. The Poles indicated that the account would "probably remain inactive during the course of the war and that the fund was being held as far as possible for the rehabilitation of Poland after the war." And then to clinch their Allied *bona fides*, the Poles told Gordon that "in the event of need they would throw in the gold to the British cause." The Bank agreed, and 71,855 fine ounces of gold were transferred from Bank Polski to an account of the Polish government. Contrary to earlier professions, the Poles used their Ottawa gold frequently during the war, principally to help finance the activities of the Polish military mission in Canada by selling gold back to the Bank of England.(62)

Another government in exile made its wish to earmark gold in Canada evident in July 1940. Again, the Bank of England made the introductions. When the German attack came in the spring, the Netherlands government had scrambled to find a safe haven for its central bank gold. It was only partially successful. Some gold was captured outright and then shipped to Germany. Other gold fell into Axis hands when the ship carrying it was stranded on a sand bar in the Channel. The rest soon found itself in the vaults of the Bank of England. The Dutch government, however, remained anxious and in July prevailed on the British Treasury to inquire in Ottawa whether an earmark account might be opened on the other side of the Atlantic.(63) Towers instinctively cabled for Montagu Norman's reaction to the proposal. Norman replied that "after weighing all the factors that Netherlands gold in London should be at free disposal of the Netherlands Government."(64) Towers responded that "we see no difficulties" and proceeded to obtain the now-usual commitment from Finance Minister Ilsley that the Netherlands gold would be considered "freely disposable" and beyond the reach of the custodian of enemy property if a request was made to remove it from Canada. By the end of August, the Netherlands government had rapidly built up its new earmark

account in Ottawa to 5,732 bars -- 2,812,124 fine ounces. This would prove to be the high-water mark for Dutch gold in Canada, as throughout the war the Netherlands government drew the account down for various purposes, including the despatch of some Dutch gold to Australia for safekeeping in 1943. Nonetheless, the Netherlands in turn brought earmark accounts to Ottawa from various colonial banks affiliated with it. In September 1942, the Bank of Dutch Guiana (De Surinaamsche) opened a gold account at the Bank of Canada. A year later the Royal De Javaasche Bank of the Netherlands Indies followed suit. Finally, in 1945 De Curacaosche Bank in the Dutch West Indies came to Ottawa. All three of these accounts were relatively small compared with the main Netherlands account and were largely intended to facilitate wartime commercial interaction between the Netherlands and its dependencies.(65)

The constellation of small colonial accounts around the main Netherlands account was paralleled by two accounts set up at the request of the Bank of England. In October 1940, the Bank of Canada opened gold accounts for the central bank of Bolivia and the Banque Melli Iran in Tehran. Here, too, the purpose was largely commercial -- to provide payment for British purchases of Bolivian tin and Iranian oil.(66) Neither account was active during the war, with the Bolivian account finally coming alive only in 1945. A 1940 account opened for the Bank of London and South America had a similarly British-oriented commercial motivation. In 1945, the Bank of Mexico opened a gold safekeeping account in Ottawa.(67) A last commercially driven account appeared in the summer of 1943 when the Banque Nationale de Belgique, on behalf of the Belgian government in exile, opened an earmark account in Ottawa to provide commercial cover on purchases of Canadian wheat they had made and for which they had no assurance from Washington that U.S. dollars would be released to make payment.(68)

The Bank of Canada thus found itself at the centre of a wartime proliferation of earmarked gold accounts. The surge of British and French gold pushed the Bank's total earmarked gold holdings to its high-water mark at the end of 1940, when 43,363,105 fine ounces of gold or the equivalent of just over 108,000 bars of gold rested in its vaults.(69) Despite the inflows and outflows, the total earmark remained remarkably steady, in the range of 37-42 million fine ounces from 1941 to 1945. However, the number of foreign accounts, as the foregoing narrative has indicated, grew steadily to 19 by the end of 1945 from the three active in late 1939.

Three common denominators run through this impressive expansion in the once rather pedestrian service of earmarking gold for foreign clients. Most obviously, the increase was the result of a flight of capital set in motion by the descent of Europe into war in 1939. Ottawa was a faraway, safe place to store gold and it was solidly in the Allied camp. Ottawa was also well situated for some of the commercial purposes of the Allied war effort, particularly Allied purchases in the still-neutral United States. Furthermore, the Bank of Canada, and other branches of the Canadian government like the Department of Finance, had developed predictable and relatively transparent procedures governing these accounts. Under the pressure of war, the Bank had developed new criteria for evaluating requests for earmarking and had applied them as a condition of opening the account. These usually focused on the *bona fides* of the depositing bank's government. Only in the case of the French gold despatched to Ottawa in 1939-40 were other factors, driven by domestic political concerns, introduced into the evaluation, in this case leading to the placing of foreign gold under the custodian of

enemy property. But this decision in late 1940 was the exception that proved the rule. The rule was that the earmarking of gold in Ottawa was seen as a useful financial tool of war, one that geography and institutional affinity had bestowed on the young Bank of Canada. And the chief instrument of that affinity had been the Bank of England, which had invariably either introduced the Bank of Canada to its new earmark clients directly or had taken a facilitating role in bringing the accounts to life. Indeed, it has been speculated that in the dark days of late 1940 Britain even considered establishing a "shadow" Bank of England in Ottawa, where it would be safe from German air attack and free to draw upon its store of earmarked gold and thereby sustain Britain's financial war if the motherland should slip under Axis control. The presence of senior British financial officials, like Sir Otto Niemeyer, in Ottawa through that autumn tends to lend some credence to the notion.(70) It is worth mentioning that England had also transferred all its negotiable securities (e.g., Treasury bills) to safekeeping in Montreal during these same years.

In the fall of 1940, these three circumstances -- the flight of European capital, the sanctity of Ottawa as a financial safe haven and the Bank of England's established influence in the Canadian capital -- would combine to produce what was perhaps the most unusual of the Bank of Canada's wartime earmark accounts.

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1. *Report of the Royal Commission on Banking and Currency*, Ottawa, 1933, p.493.

2. R.S. Sayers, *The Bank of England 1891-1944*, Vol.II, London, 1976, p.513-4.

3. H.A.Siepmann to J.A.C. Osborne, April 24, 1936, Bank of Canada [hereafter BOC] file A18-17.

4. Sayers, op.cit., p.515.

5. Ibid., p.654.

6. M. Norman to G. Towers, December 22, 1934, BOC file GFT 75-9.

7. Minute Book of the Bank of Canada Board of Directors [hereafter MBBOC], full board, November 27, 1935.

8. Ibid., September 3, 1935.

9. See, for instance, MBBOC full board October 23, 1936 and June 22, 1937.

10. MBBOC, executive committee, July 5, 1935.

11. Sayers, op.cit., pp.103-8.

12. Towers to Norman, February 6, 1936 and Norman to Towers, February 19 and April 29, 1936, BOC file A18-17.

13. Siepmann to Osborne, op.cit., April 24, 1936.

14. J.A.C. Osborne, "Earmarked Gold," April 30, 1936, BOC file RD 1B-640.

15. Bank of Canada Act, 24-25 George V, Chapter 43.

16. See BOC file RD 1A-640.

17. Ibid.

18. An Act respecting the Export of Gold, 22-23 George V, Chapter 33 and An Act to amend The Gold Export Act, 25-26 George V, Chapter 21.

19. J.A.C. Osborne to W.C. Clark, deputy minister of finance, March 5, 1936 and Clark to Osborne, March 11, 1936, BOC

file A18-17. Whenever the Finance Department issued such assurances, it always included one proviso: "If at some future time Parliament should desire to change the present policy in regard to export licences, you will be informed in ample time to make satisfactory arrangements for the export of the gold which you may then hold earmarked for the Bank of England."

20. Norman to Towers, February 19 and March 30, 1936, BOC file A18-17.

21. Memo for Mr.Gordon, May 7, 1936 from the Chief of the Currency Division, BOC file 18-17-1.

22. Cable, Towers to Norman, April 29, 1936, BOC file A19-17.

23. MBBOC, Executive Committee March 19, 1937.

24. Osborne to Siepmann, June 2, 1936, ibid.

25. Siepmann to Towers, November 20, 1936, ibid.

26. All statistics relating to earmark accounts at the Bank of Canada are drawn from the gold record reconstructions produced by the Gold History Project, Bank of Canada, 1997.

27. See, for instance, Norman to Towers, April 14, 1939, BOC file A18-17.

28. Manager & Assistant General Manager, BIS, to Bank of Canada, March 9, 1935, BOC file A1-5A.

29. Siepmann to Towers, March 31, 1938, BOC file A18-17.

30. Towers to Siepmann, April 2, 1938 and Towers to Dunning, April 4, 1938, ibid.

31. Towers to Siepmann, April 4, 1938, ibid.

32. Norman to Towers, April 19, 1939, ibid.

33. Osborne to Siepmann, May 11, 1938, ibid.

34. Gordon to Siepmann, October 20, 1938, ibid.

35. All dollar figures cited in this report are in Canadian dollars, unless otherwise indicated

36. See, for instance, MBBOC, full board May 30, 1938 and June 26, 1939, ibid.

37. Memo by G.F. Towers, March 22, 1939, BOC file 3-1.

38. Bolton to Osborne, April 13, 1939, A6-3/1.

39. See, for instance, the opening of a 10,000 Swiss-franc Banque Nationale Suisse cash account reported in MBBOC, December 20, 1935.

40. Towers memo #251, April 18, 1939, Towers Papers, BOC Archives.

41. Interview with Forbes Hirsch, September 4, 1997. See: John Ibbitson, "Bullion Boy: How a Junior Accountant Herded a Wartime Armada of Gold," The *Ottawa Citizen*, December 4, 1995.

42. "Gold Held in Safekeeping for the Bank of England, 1938-Aug. 1941," BOC file A18-17-9.

43. Towers to Clark, April 15, 1939 and Clark to Towers, April 15, 1939, BOC file SEC/OS 91-19.

44. Towers to Governor, Banque de France, May 1, 1939, BOC file A6-3.

45. See: the *Toronto Star*, May 15, 1939, The *Wall Street Journal*, July 5, 1939 and the Montreal *Gazette*, August 22, 1939.

46. Donald Gordon to Ivar Rooth, Sveriges Riksbank, January 3, 1940, BOC file A16-2.

47. O.D.Skelton to Chairman of the Foreign Exchange Control Board, July 14, 1940, BOC file A6-4.

48. J.L. Ilsley to Towers, August 1, 1940, BOC file SEC/OS 91-19.

49. Churchill to W.L.M. King, August 25, 1940 and King to Churchill, September 3, 1940, BOC, Towers Papers, GFT 75-12.

50. Memo by O.D.Skelton in response to G.F. Towers, September 14, 1940, ibid.

51. Notes on Dr. Skelton's Memorandum of September 9 , and discussion which took place on that date, September 10, 1940, ibid.

52. Memo by O.D. Skelton in response to GFT, September 14, 1940, ibid.

53. Ilsley to Towers, November 16, 1940, BOC file SEC/OS 91-19.

54. W.L.M. King to Churchill, October 25, 1940, ibid.

55. Erik Colban to Bank of Canada, BOC file 515-11-5.

56. D.G. Marble to N.A. Robertson, July 6, 1940, ibid.

57. Towers to Ilsley, August 15, 1940 and Ilsley to Towers, August 19, 1940, BOC file SEC/OS 91-19.

58. D.B. Mansur to Robertson, August 24, 1940, ibid.

59. At times, there are slight discrepancies between gold figures cited in correspondence and the actual final transaction record. Client banks would instruct Ottawa to take delivery or sell "approximate" amounts of gold and the final book entry would reflect precise fine ounces.

60. All July 1940 Bank Polski, Bank of Canada and Bank of England in BOC file A13-2.

61. Towers to Ilsley, August 15, 1940 and Ilsley to Towers, August 19, 1940, BOC files SEC/OS 91-19 and A13-2.

62. "Gold Held for Bank Polski, 1940-45," dated June 27, 1946, BOC file A13-2.

63. The request came from "Phillips," presumably Sir Frederick Phillips, who had visited the Bank of Canada that summer (MNBOC, full board, September 9, 1940). Towers to B.G. Catterns, July 16, 1940, BOC file A25-1.

64. Secret cable Norman to Towers, July 18, 1940, ibid.

65. BBOC, Executive Committee, July 11, 1942, August 21, 1942, April 9, 1943 and May 4, 1945.

66. Towers to Ilsley, October 16, 1940, BOC file A23-1.

67. BOC file A34-5A.

68. Towers to Ilsley, August 14, 1943 and W.C. Clark to Towers, August 14, 1943, BOC file A 3-1.

69. This included 8,663 bars held on account for the Canadian minister of finance.

70. George Watts, "A Note on the 'Shadow' Bank of England in Ottawa, 1940" and "The 'Shadow' Bank of England in Canada and Other Related Matters, 1940," Memos of George Watts, BOC Archives.

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Due Diligence
A Report on the Bank of Canada's
Handling of Foreign Gold During World War II

Earmarked Gold in Canada, 1935-56
Part II

REFUGEE GOLD: THE SUNDRY PERSONS ACCOUNT

Since its inception in 1935, the only clients the Bank of Canada had served were other central banks, the Bank for International Settlements, Canadian chartered banks and the Canadian minister of finance. It was not in the business of retail banking and the closest it got to that function -- Section 25 of its incorporation act empowering it to buy or sell gold to anyone tendering its price at its head office -- had been suspended by annual orders-in-council since 1935. Nevertheless, the coming of war would bring the Bank of Canada as close to having individual clients as it would ever come. Once again, the initiating and controlling factor was the Bank's relationship with the Bank of England.

The rise of Nazi Germany in the 1930s and the ideological, diplomatic and racial tensions it overtly promoted in the late years of the decade compelled many Europeans to flee their homelands in search of safe haven. Many took their worldly wealth with them. Others, as the recent controversy over dormant accounts in Swiss commercial banks has revealed, transferred some or all of their wealth abroad as an insurance against possible displacement from their homeland if war should come. As tensions grew in Europe, the Bank of Canada quietly discussed the possibility of allowing foreigners to store and perhaps buy gold in Canada's commercial banks. The idea received guarded approval in Ottawa; there was some fear that news of such activity might trigger gold hoarding by the Canadian public. Nonetheless, the fact that an export licence would be required to move such gold back out of the country was held up as assurance that the ultimate disposition of such gold was within Canada's control. Ottawa therefore seemed to adopt a policy of low-keyed, tacit approval of such foreign deposits. In July 1938, Governor Towers asked the general managers of Canada's chartered banks to provide him with a monthly report of foreign-owned gold in their safekeeping. When war eventually came, he told them that it was their "very definite duty" to report any "suspicious or improper" holdings of foreign gold in the vaults.(71)

England, not Canada, however, became a favourite destination for these prewar refugees and their valuables; it was close to Europe and seemingly safe. Once there, European exiles tended to deposit their valuables -- often precious metals like silver and gold -- in the safekeeping of English commercial banks. With the advent of war in 1939, these European refugees became subject to various

constraints placed on their activities as alien holders of gold in Britain. One of these was the necessity of obtaining an export licence from the British government if they wished to take their gold out of Britain. Given the parlous state of Britain in the summer of 1940, this demand grew steadily as European refugees sought to further distance themselves from the menace of the Axis. At this point, the British government began to worry about the ultimate destination or application of such gold once it left Britain. The principal concern was that these small amounts of refugee gold might find their way into the service of the Axis. "We have been concerned for some time," Bank of England senior official G.L.F. Bolton wrote to Donald Gordon at the Bank of Canada in September 1940, "with the degree of veracity to be placed on non-enemy Declarations executed by foreign owners of gold here when applying for permission to export." It was not that their loyalty to the Allied cause was in question, but that they might involuntarily be placed in positions that jeopardized the Allied cause. "In many cases," Bolton continued, "the relative documents have to go through enemy countries and it is probable that pressure is brought to bear on some owners to place their gold where it can be used directly or indirectly for enemy purposes." Consequently, by the late summer of 1940 the Bank of England was refusing all refugee requests to remove gold from the country.(72)

As Bolton acknowledged, the Bank realized that there was "a strong element of unfairness in maintaining a flat refusal" to all requests to move personal gold out of the country. The predicament of a few penalized the majority, who were presumably immune to pressure from the Axis. The Bank of England was therefore prepared to offer "an alternative" to those refugees eager to move their gold to what they perceived as more secure safe havens. On September 12, 1940, the Bank issued Foreign Exchange Control Notice 234/44. Foreign holders of gold in British commercial banks could surrender their gold to the Bank of England, which would then earmark 95% of the value of that gold in its account at the Bank of Canada in Ottawa. Five per cent of the value would be kept by the Bank of England to cover the cost of handling the transaction. A receipt in the form of a "lodgment form" would be issued to the gold owner, but it would explicitly state that its ownership was "not transferable and not negotiable." "It must be understood, however," the notice warned, "that such gold will not be placed at the free disposal of the beneficiary until one month after the date upon which the Emergency Powers (Defence) Act of 1939 expires although the Bank of England would be prepared, in exceptional circumstances, to consider an application for earlier release."(73)

Foreign gold holders were thus given a safer refuge for their gold and Britain obtained some assurance, since legal control of the account remained with the Bank of England, that the gold could not be redirected to nefarious purpose. As Bolton candidly admitted later in the fall, the "gold offer is intended rather to immobilize than to mobilize foreign holdings and we do not intend to allow release before the end of the war unless for very good and exceptional reasons... the whole administration is centralized with us."(74)

From a Canadian point of view, what is remarkable about this policy is that it was made public six days *before* Bolton at the Bank of England wrote to the Bank of Canada informing Deputy Governor Donald Gordon of its intent and conditions. "The offer pre-supposes," Bolton told Gordon on September 18, "as you will see, that owners will be able to obtain free export facilities from Canada and I assume that as all releases will be authorized by us, under advice to you, there will no difficulty about the issue of export permits from

Canada if necessary." Such was the nature of the close relation of the two central banks that Gordon was predisposed to acquiesce to the British proposal, although he had in fact been presented with a fait accompli. "I can see no particular difficulty about the arrangement proposed," he wrote on October 10, "and we shall, of course, be happy to receive and hold in custody for you the duplicates of all Lodgment Forms received.... I assume that we will not be asked to open special gold accounts for each of the individuals concerned, but that you would simply advise us to release from your stock a certain amount of gold to a specific individual." There was also "no difficulty" about obtaining gold export licences.(75) In fact, in January 1940 the Bank had made a similar plan available to the Banque de France, but there had been only a single depositor who chose in May of that year to deposit eight bars of gold in Ottawa in return for francs paid out in France.(76)

Almost immediately, refugee gold began arriving in Ottawa. "The offer is now seven weeks old and we have accepted 33 deposits, mostly from Swiss residents, to a total amount of something over £1/2 million," Bolton wrote in early November.(77) Thus, the value of a refugee's gold surrendered to the Bank of England in London was now under safekeeping in Ottawa. The Bank of Canada was made aware of the identity of individual gold holders by means of duplicate copies of the lodgment forms the depositors had received in London when they or their agents had surrendered their gold. The first deposit was registered on October 18, 1940, and the last appears to have been registered on June 17, 1941. In total, there would be 155 deposits. The records indicate the name of the depositor, their address (not always given in its entirety, e.g., simply a city) and the amount of gold earmarked. The amounts of gold varied dramatically. The smallest deposit was just over 11 ounces of fine gold; the next smallest was 22.5 fine ounces. The largest holding was 267,619 fine ounces -- approximately 670 bars of gold. Most holdings were in the range of three to four bars of gold. Some of the deposits were in the form of gold coins. The total sundry persons deposit amounted to just over 526,400 fine ounces of gold or the equivalent of 1,316 bars of gold, of which 499,925 ounces -- approximately 1,250 bars -- were still the property of the "sundry persons" depositors after the Bank of England retained its 5% handling charge.

Some of the deposits were in a corporate name -- usually a bank or a manufacturing concern -- but most deposits bore the name of an individual. There was nothing more than a name and an address to suggest the identity of the depositor. It is a dangerous game to extrapolate about race, religion or nationality on the basis of a name and address alone. Nonetheless, a preponderance of the names would *appear* to be Jewish. Many of these appear to have been living in temporary accommodation (e.g., a New York hotel). There were, however, also names which are seemingly Anglo-Saxon, Slavic and Germanic, although, given marriage patterns, this is of course no absolute determinant of faith or nationality. Many of the deposits held in the name of a financial institution were held in the name of a foreign -- usually in New York or London -- branch of that banking corporation. The addresses were scattered across the face of the earth. They ranged across thirteen countries. There was a concentration in London and New York, but others gave addresses in prominent South American cities like Rio de Janeiro and Buenos Aires. Others lived as far afield as Iran and Hungary. There are no Canadian addresses. Of the minority of corporate clients (i.e., manufacturing companies) within the account, many had addresses in Switzerland.

Despite its seemingly simple terms, the arrangement was

from the outset surrounded by confusion. Refugees, who were naturally caught up in the confusion and insecurity of war, were often unsure which central bank actually had control over their gold, despite the fact that this had been carefully spelled out on the lodgment form that was issued to each depositor. The Bank of Canada's first sundry person inquiry was dated October 9, 1940, and came from a Dutch national resident in Portugal en route to America. It contained a request that the Bank of Canada confirm the receipt of a gold bar deposited in London and ensure that it was registered directly in the name of the letter writer. "It is not, of course, our intention that you should act on instructions received in this manner," Bolton instructed Ottawa, "and we have clearly stated that before delivery of the gold can be effected the receipt must be presented to us. Neither do we wish to place you in the position of having to verify that you are holding gold for any particular individual."(78)

Both legal and practical control over the account thus rested entirely with the Bank of England; the Bank of Canada was simply the safe-keeper. To this end, the Bank in Ottawa developed a standard response to anyone inquiring about their gold in Canada: "The arrangement which is being made by the Bank of England is entirely in their hands and the whole administration of the offer is being centralized with them."(79)

Problems and confusions however continued. The Bank of Canada began receiving letters from refugees holding gold in the account asking that their gold be delivered to them. Their stories were often heart-rending. Many reported that their flight from their homeland had now carried them to one of Europe's neutral countries or to the United States, where, having deposited all or most of their wealth in the Bank of England's sundry persons account, they were consequently no longer able to support themselves and were becoming desperate. Many of these requests went directly to the Bank of England, which had promised to consider early release of gold in exceptional cases. Others mistakenly approached the Bank of Canada with their requests for release of their wealth. A Bank of Canada official candidly admitted to a Canadian diplomat that there was "considerable confusion and misunderstanding regarding the availability of the gold."(80) These requests were invariably forwarded to London, where the British usually turned them down, reiterating the original commitment to free the gold soon after the Emergency Powers Act lapsed. Ottawa was never told of the criteria by which these decisions were reached, although the correspondence authorizing release seems to suggest why a minority of deposits were in fact freed before the end of the war. Some cases seemed to indicate that the gold was freed if it seemed destined to be applied to the Allied war effort. One applicant received a release of his gold after he made it known that he intended to apply the proceeds to the purchase of oil tankers.

Other cases indicate that extreme hardship also seemed to carry some weight with the Bank of England, especially if the refugee had acquired U.S. resident status. In July 1942, the Canadian trade commissioner in New York, Douglas Cole, reported to Ottawa that he had been approached by a Czechoslovakian refugee couple now resident in New York. The husband told Cole that he had "taken out his first [U.S. residency?] papers and as such is subject to the American draft and their funds are running low as they are exhausting the proceeds of American securities which they owned before escaping to this country." Cole told the Bank of Canada that "this couple have gone through murderous experiences and their papers appear to be in order" and asked the Bank to assist them.(81) To reinforce his request, Cole passed on a

letter from the refugees. Since 1924, the Czech couple had lived in Vienna, where they owned a cotton and wool factory. It was confiscated in 1938 after the German takeover of Austria. Within a year, their remaining properties and "the fortune of my husband's father" in Czechoslovakia were also confiscated. The couple themselves fled to Paris and after the German invasion of France made their way "with great difficulty" to Lisbon. Finally, in March 1941 they arrived in New York. Just before the outbreak of war, the couple transferred two gold bars they had in an Amsterdam bank to England, from whence they found their way into the sundry persons account in Ottawa. Now they needed the gold. The letter concluded:

> We feel that the British Empire never meant to involve such a hardship on people who have suffered tremendously through the action of the axis powers. We can assure you that our financial position, prior to invasion, was one that did not give us any concern at all, but we, along with thousands of others, found ourselves suddenly removed from a position of security to one bordering on actual want. If we could receive the monetary value of these bars of gold, we would be in a position to establish a business here in the United States which would afford us an opportunity to start a new life which would settle us completely for the future.(82)

Ottawa forwarded the letter to the Bank of England, which decided to grant their request. On September 2, 1942, the couple received their gold in Ottawa. Between late 1941 and 1945 there were 34 such early releases of gold from the sundry persons account. Others would not be so lucky.

After the initial burst of activity in 1940-42, the sundry persons arrangement slipped into a kind of mid-war quiescence. There were sporadic requests for release from clients and routine correspondence with the Bank of England, but most holders of gold in the account seemed to have settled down for the end of the war and the much-awaited expiration of Britain's Emergency Powers Act that would follow the coming of peace. The account's existence seemed to attract no publicity outside the Bank's walls, nor was there any trace of concern over the account within Ottawa's wartime bureaucracy. Within the Bank, the prevalent attitude seemed to be that once again the Bank of Canada was extending its warm relationship with its British central bank ally.

GOLD FOR FRANCS: THE ANGLO-SWISS SWAP AGREEMENT OF 1942

Britain's rush to earmark gold in Canada in the anxious years of 1938 to 1940 was primarily driven by the need to put a significant amount of the country's monetary wealth out of harm's reach. This transatlantic placement of gold had the fortunate side effect of allowing Britain a means of meeting the cost of its initial purchases from the still-neutral United States. Between September 10 and 18, 1939, for instance, the Bank of England ordered that $100 million of its Ottawa earmarked gold be shipped to the Federal Reserve Bank of New York, where it was converted into U.S. dollars to help meet the cost of "cash and carry" purchases from the Americans.(83) The pattern continued through the early

phase of the war with the United States maintaining its official neutrality while acting out an unofficial friendship with the Allies. When the Lend-Lease Agreement between Britain and her allies and the United States came into effect in the spring of 1941, Britain's appetite for U.S. dollars eased somewhat, as war purchases could now be covered by the British-bases-for-American-equipment swaps that Lend-Lease made possible.

Britain, however, was making war purchases elsewhere and needed other types of hard currency to cover them. Switzerland was one of these suppliers. Even before the war, Britain had traded heavily with Switzerland, running an average annual trade deficit there in the last two years before the war of 50 million Swiss francs.(84) With war, Britain cut its luxury purchases in Switzerland and concentrated on buying war-oriented matériel, such as Swiss-made Oerlikon-Buehrle guns. As a result, the deficit in Anglo-Swiss trade burgeoned. Even when Switzerland found itself surrounded by the Axis in 1940, Britain still managed to smuggle goods out of Switzerland. At the same time, other British activities in Switzerland -- legation costs, funding intelligence operations and propaganda activities -- ate heavily into Britain's holdings of Swiss francs. Through all this, the Swiss franc remained one of Europe's most durable currencies. While war ravaged the worth of most European currencies (thereby, of course, placing a premium on the value of gold), the Swiss franc remained stable and convertible. The British Treasury in London did its best to conserve Britain's waning supply of Swiss francs, even to the point of applying, in direct contravention of the conditions it had agreed to under Lend-Lease, its holdings of U.S. dollars to Swiss purchases. To avoid tipping off the Federal Reserve to this use of American currency, the British drew these dollars from their account at the Chase National Bank in New York.

But in March 1942, even this expedient and devious means of supporting Britain's purchases in Switzerland came to an end. Switzerland refused to accept any more U.S. dollars. Anxious to deny Germany any means of feeding its war machine with raw materials, such as tungsten, from neutral Portugal and Spain, the United States had prohibited the use of U.S. dollars in such transactions. Since these transactions had often been arranged through Swiss financial channels, the Swiss willingness to accept U.S. dollars declined sharply. At the same time, Switzerland began to guard its monetary reserves in an effort to curb inflationary pressures in Switzerland. The Swiss central bank, the Banque Nationale Suisse, committed itself to maintaining a reserve of 40% of the money in circulation in the country in foreign currencies and/or gold to anchor the domestic performance of the franc and thereby cool inflationary pressures. Since both the Americans and British had also put in place regulations embargoing Swiss holdings of gold and foreign currency held abroad, chiefly in London and New York, the Swiss were unwilling to accumulate any more blocked gold and currency out of the country, where it could not be applied to domestic monetary operations or to pay for its own imports. Thus, while Switzerland could freely export, its ability to import was restricted, thereby creating inflationary pressures. By the spring of 1942, the pressures conspiring to create what one historian has described as Britain's "perennial shortage of Swiss francs" had reached a chronic impasse.(85)

On March 9, 1942, Graham Towers received a coded cable from Montagu Norman at the Bank of England. "For a long time," Norman confided, "we have only been able to obtain our essential Swiss franc requirements against U.S. dollars. Difficulties have lately arisen owing to United States freezing

policy. Swiss are now reluctant to accept U.S. dollars without a special licence for their transfer to third party which United States authorities are reluctant to give. We must obtain Swiss francs and are therefore suggesting to Swiss that they sell us Swiss francs against gold [held by the Bank of England in Ottawa]." Norman then stated that the Swiss had asked "in general" whether any gold they acquired title to in Ottawa would be "at the free disposal of the Swiss" and in particular whether it could be sold, transferred or exported to other central banks. Norman already sensed that such gold would have to be blocked and even suggested the wording of a response to the Swiss central bank, the Banque Nationale Suisse:

Gold deposited in Canada is subject to an export licence system, permits being based on general allied policy. Transfers to the accounts of any neutral central bank would normally be permitted although there might be some difficulty about Portugal or Spain. Licences would probably be given for exports of gold earmarked for your account to central banks of the western hemisphere. It is most unlikely however that licences would be granted for exports to Europe.(86)

Two days later Towers cabled back: "We agree with reply suggested." Reading into Norman's message, the Swiss seemed to be probing whether they could obtain Allied gold and not be bound by the blocking arrangements that they had encountered elsewhere. Norman's readiness to confound this expectation indicates that it was only a probe. On March 18, Norman cabled that the Swiss had a fall-back position: "...they are willing for the time being to renounce condition that gold deposited in Canada must be free for exportation to central banks of neutral European countries," but "they require certainty that such gold can be exported to other central banks of Western Hemisphere and transferred to central banks of Western Hemisphere and of neutral countries Sweden, Portugal, Spain." Norman said that the Swiss should be made to understand that "transferred" would mean not a physical transfer but a book transfer in Ottawa. Could the Bank of England tell the Swiss that Ottawa agreed to such terms?

A second cable followed on the heels of the first. "It is realized here," Norman wrote, "that undertaking required by Swiss is not wholly satisfactory to us and involves some risk of eventual transfer for enemy benefit."(87) In his reply the next day, Towers said that he could immediately see what this risk was: before any other neutral country in Europe might accept payment in gold from Switzerland it would seek assurance that any gold it took ownership of in Ottawa could be exported within the Western Hemisphere and that the gold might therefore find its way to a country of questionable neutrality, like Argentina. Norman had anticipated this loophole in his previous cable, but had to bow to the exigencies of war. "But after discussion with Whitehall it is felt that necessity to obtain Swiss Francs largely needed for direct war purposes must override these objections." Towers concurred and suggested that "consideration of this question can be deferred unless and until it is raised by one of the European neutrals."(88)

The same day that Towers gave his tacit approval to Norman he telephoned and then wrote to Deputy Minister of Finance W.C. Clark to gain his department's approval of the arrangements suggested by Norman. This was an automatic obligation. An export licence would be required for any earmarked gold held by a foreign bank at the Bank of Canada and experience had shown that the client would want assurance of such a licence in advance. Towers laid out the conditions that the Swiss would accept: "certainty that

such gold can be exported to other central banks of the western hemisphere, and transferred to central banks of the western hemisphere and of neutral European countries -- Sweden, Portugal and Spain." Towers told Clark that the U.K. government "is not wholly satisfied with the proposals, inasmuch as they involve some risk of eventual transfer for enemy benefit, and they intend to try to make a better deal with the Swiss." But "in the circumstances," Towers concluded, "I do not think that we should refuse to facilitate such transactions."(89) Towers' letter indicated that Clark was in accord with this reading of the situation.

Clark in Finance did not reply formally to Towers until April 7, in a short letter that betrayed no undue concern and concluded that "there is nothing we can do but to facilitate the transaction..."(90) Two weeks later, the Bank of England inquired whether the Bank of Canada had secure, coded communications with Switzerland. Ottawa said it did not and said that it would "gladly agree to leave all necessary technical arrangements to you."(91) It was not until April 28 that the first direct communication was received in Ottawa from the Banque Nationale Suisse (BNS) in Zurich. The BNS was no stranger to Ottawa. It had maintained a drawing account in Ottawa since 1935 and had made quiet inquiries in 1939 about earmarking gold in Ottawa. Now the BNS had some definite inquiries. Was it possible "under actual Canadian legislation" that a Swiss commercial bank could open a gold account in Canada? And could that deposit contain gold owned by Swiss commercial banks? Towers immediately turned to Norman in London for advice. Ottawa, he suggested, would accept deposits from a Swiss commercial bank but would not feel bound to respect the hemispheric conditions it had extended to the BNS for shipping such gold out of Canada. Or, as an alternative, Ottawa might open a special account for such gold in the name of the BNS but accept no "fiduciary" responsibility to the Swiss commercial banks actually owning the gold. Towers admitted to being mystified by "what gave rise to the inquiry."(92)

Not until May 1 did Towers hear back from Norman and what he got was a tutorial in the *realpolitik* of the war's convoluted financial affairs. London was obviously locked in tough negotiations with the Swiss, negotiations driven by its desperate need for francs. The "recent provisional arrangements" made for an account for the BNS "represented a concession by the Swiss National Bank to avoid a breakdown in the financial relations between the sterling area and Switzerland." Despite the concession, Norman had his suspicions about Swiss motives in wanting an Ottawa account. "We suspect therefore that the Swiss National Bank proposes to buy gold in Switzerland irrespective repeat irrespective of origin and ownership either against sales of equivalent gold in Canada or a guarantee to the original holders that the Swiss National Bank holds the equivalent gold in Canada to his order." (Significantly, this was the only instance in the entire post-1935 correspondence between Norman and Towers that Norman had repeated a phrase to add emphasis). Norman feared the "approach made to you tends to confirm our suspicions and we feel that the intention may be to evade the strict freezing measures in Washington, and London." In short, Norman feared that Switzerland would use the combination of a central bank account in Ottawa with a parallel Swiss commercial bank account beside it to move gold of unknown origin -- and Norman must have known that gold looted from occupied countries by Germany was finding its way into Switzerland -- into legitimate financial channels. The swapping, either by paper transfer or actual physical transfer, of legitimate gold in the vaults of the Bank of Canada for gold

held offshore might fit such designs exactly. "I therefore suggest," Norman sternly advised, "that you avoid giving the Swiss National Bank any help or encouragement whatsoever either to transfer gold in Canada to the names of private residents or commercial banks in Switzerland or to hold gold in their own names for private Swiss interests." Canadian commercial banks should be asked to conform to this injunction. Once the possibility of private citizens or Swiss commercial banks moving gold through Canada had been blocked, Norman concluded, then the original "provisional arrangements" might be applied to the BNS alone and gold allowed to come to Ottawa.

Towers got the message. The next day, May 2, the BNS was told by Ottawa that "under existing conditions there are obstacles in the way of acceptance of gold deposits unless the gold is the property of a central bank." Neither the Bank of Canada nor Canadian commercial banks would be able to deal gold on the basis suggested by the Swiss.(93) During this negotiation, Towers had learned that two of Canada's commercial banks had received inquiries "of the same character from Swiss correspondents." Now he understood their purpose. "Present regulations in the United States," he confided to Clark at Finance, "provide that gold will only be accepted for safekeeping if it is the property of a central bank or a Government. The Swiss are evidently trying to find out whether our policy is less restrictive." Towers then despatched a circular letter to the general managers of all Canada's commercial banks. It was "the desire of the Government that no new gold safekeeping accounts should be opened for non-resident banks, corporations or individuals."(94)

Thus, by early May 1942 the Bank of Canada had worked out the terms under which it would accept gold under earmark from the Banque Nationale Suisse and potentially hold it for other neutral central banks in Europe. It had also shut the door on any of these arrangements being extended to European commercial banks. Much of policy-making on the run was done with advice from the Bank of England. Both Ottawa and London were aware that there remained loopholes in the arrangement -- the possibility, for instance, that Ottawa gold might find its way to Argentina -- but given London's desperate need for francs, the Bank of Canada was prepared to defer dealing with such eventualities "unless and until" they materialized.

What is remarkable is that even while these arrangements were being framed, refined and set in place between early March and early May 1942, the Bank of England and the Banque Nationale Suisse were in fact implementing their gold-for-francs swap. Such was the haste of implementing this transaction that there is no document in the Bank of Canada records that indicates the exact date on which the BNS account was opened. Nor is there any written communication between London and Ottawa detailing the sealing of the Anglo-Swiss agreement. The Bank of Canada gold ledger books (the ledgers in which all gold movements -- arrivals, departures and transfers of gold -- at the Bank were recorded) do indicate that on March 25, 1942, the first transfer instruction was received from the Bank of England. On that day, London asked that 66,815 fine ounces of gold -- 166 bars -- be moved from its earmark account to the account of the BNS. Thus began a rolling swap of English gold for Swiss francs that was to stretch out in 155 individual transactions until December 31, 1943. On each occasion, gold was transferred by ledger entry from the earmark account of the Bank of England and credited to that of the BNS. It was literally a paper transfer; actual gold bars in the vault stayed where they were and only a bookkeeping

alteration was made. By the end of the series, 4,506 gold bars -- 1,816,372 fine ounces or over 56 tons -- had passed from English to Swiss ownership.[95] The individual swaps were remarkably evenly paced, usually taking place on a weekly or slightly less than a weekly basis. The amounts were also relatively steady, with occasional upward blips. The largest transfer came in March 1943 when 80,088 fine ounces changed accounts. The smallest -- 3,618 fine ounces -- came on February 17, 1943. Most transfers were in the range of 6,000-10,000 fine ounces.

The Anglo-Swiss gold-for-francs swap attracted no public attention. Nor did it occasion any unusual bureaucratic deliberation beyond the telephone calls and exchange of memoranda between the governor of the Bank of Canada and the deputy minister of finance. The Anglo-Swiss agreement and its implications for the earmarking of gold by Canada's central bank is never mentioned in the records of the Cabinet War Committee, the political control room of Canada's war effort. Nor is the agreement or its implications mentioned in the listing of Cabinet conclusions. There is no direct correspondence on the matter from Finance Minister J.L. Ilsley to Bank of Canada Governor Towers, only *pro forma* correspondence on such things as gold export licences channelled through his deputy minister. There is no mention of any matters relating to foreign gold in the famous diary of Prime Minister W.L. Mackenzie King. Beyond the original justification given by Norman to Towers that the whole deal was made necessary by Britain's acute shortage of francs, there is no written rationale for the swap in any of the Bank of Canada's files. Only once is there a ray of illumination. On June 22, 1942, the full board of the Bank of Canada convened in Ottawa. War had made the full board's meetings less frequent; the board's executive committee met more frequently. The June meeting was therefore the first full meeting since the Anglo-Swiss arrangements were mapped out. When the board turned to "business arising out of the minutes," Governor Towers was asked to explain the new Swiss earmark arrangements. They had, he told the directors, been established "for the purpose of acquiring Swiss francs, which enabled the [British] authorities to assist prisoners of war."[96] The matter was not raised again.

Even before the Bank of Canada had spelled out in its cable to Zurich of May 2 the final conditions by which the BNS could hold earmarked gold in Ottawa, the Swiss bank began issuing instructions for the transfer of gold to another neutral country account. On April 22, the Bank of Canada received instruction from the BNS in Berne to take "approximately 64,310 ounces" -- two tons of gold -- out of its new earmark account and place them "at the disposal of Banco de Portugal."[97] Although the Banco de Portugal had not as yet established a formal account (for instance, lists of signatures authorized to activate transactions had not yet been exchanged), the Bank of Canada honoured the Swiss request. Because Ottawa did not have secure, coded communications with Lisbon, it was obliged to communicate with the Portuguese central bank via its cable link with the Bank of England.[98] A week later, the Banco de Portugal initiated formal contact with the Bank of Canada. It acknowledged that it had been "advised" by the BNS that the two tons of gold it had received title to from the Swiss bank was "free to be exported, from Canada, to Central Banks of countries in the Western Hemisphere and is freely transferable, in Canada, to Central Banks of countries on the Western Hemisphere and of neutral European countries." They forwarded a list of authorizing signatures and concluded with a wish for "a fruitful co-operation between our two Institutions."[99] They did not provide -- nor would there have been an expectation of such -- any explanation of the purpose

of their swap for Swiss gold, no sense of what item or service they had surrendered for the gold. Towers was not subsequently quizzed about this new account by the Bank's board.

On May 4, the BNS requested that another 64,837 fine ounces of gold be transferred to the Banco de Portugal account. The transfer was executed on May 5, leaving the Portuguese with approximately four tons of gold resting in the Bank of Canada vault. On May 15, Towers wrote to acknowledge the formal opening of the Banco de Portugal account and its recognition of the conditions set on the movement of their gold in Canada. Towers reciprocated Lisbon's good wishes by "expressing our pleasure in the establishment of business relations with your esteemed institution."(100) The next day W.C. Clark at the Finance Department reconfirmed that an export licence would be given to the Portuguese under the prescribed conditions "in accordance with the original arrangement approved at the request of the Government of the United Kingdom."(101)

After the intense flurry of account openings and gold swaps in the March to May period of 1942, the foreign earmark accounts at the Bank of Canada settled into a quiet mid-war routine. The steady, almost mechanical transfer of Bank of England gold into the BNS earmark account continued. Across the Atlantic in London, Anglo-Swiss negotiations continued as Britain continued to try to find ways to obtain Swiss francs. The Portuguese earmark account became inactive through the rest of 1942 and 1943, with its 321 bars of gold sitting undisturbed. There were no more requests from Switzerland that gold be transferred to the Portuguese or any other account.

In November 1942, a secret cable that arrived from Montagu Norman in London shed more light on the tenor of the Anglo-Swiss negotiations that had driven the gold-for-francs swap of the spring. Norman informed Towers that the Swiss delegation that had been parked in London all summer long negotiating the issue of British access to Swiss francs was still at the bargaining table. A "financial agreement" was seemingly at hand "which will have the effect of guaranteeing the sterling area's ascribed requirements of Swiss francs over the next three years at a fixed rate of 17.35." The British would satisfy their part of the deal by supplying "sterling and the balance against gold in Canada." But the Swiss wanted "formal assurance on the line of assurance given last March" that any gold they took ownership of in Ottawa was exportable to Western Hemisphere central banks and transferable to neutral country banks in Portugal, Spain and Sweden.(102) Towers cabled back that Norman could give "the Swiss the assurance they require."(103)

The Swiss negotiations, however, continued to prove arduous and Towers did not again hear from Norman directly until the following December. By then, Britain's desperate appetite for francs had obliged it to relax its vigilance. "Negotiations are at advanced stage with the Swiss for the provision of Swiss Francs to meet the requirements of the sterling area including refugee Allied Governments," Norman cabled. The British would "probably" soon allow the direct sale of gold to the Banque Nationale Suisse "at a Swiss Franc price delivery London with an unconditional export licence for shipment of such gold to any non-enemy territory." The Swiss, however, wanted yet another confirmation of the status of the gold they had accumulated in Ottawa *prior* to the upcoming agreement. More precisely, they wanted assurance that their gold in Ottawa could be moved to Berne "six months after the conclusion of hostilities between the United Kingdom and

Germany..."(104)

The import of Norman's cable was dramatic. If Britain was now willing to sell its gold directly onto the continent to "non-enemy territory" like Switzerland, Portugal and Spain, then the protective necessity of earmarking gold in Canada evaporated. Whatever the implication of Norman's request, Towers was as usual quick to oblige it. The next day he wrote to Deputy Minister of Finance Clark asking for a reconfirmation of his department's willingness to issue an export permit for the postwar export of Switzerland's Canadian gold. On December 20, Clark reported back that he had discussed the matter with his minister, J.L. Ilsley, and that there would be "no objection," especially since the assurance would help to pave the way for Britain to receive "an adequate supply of Swiss francs..."(105) The same day, Towers gave the nod to London. By that day Britain had already reached agreement with the Swiss for the direct provision of francs for British gold. Britain had finally eased its severe liquidity problems with Switzerland; Britain's purchase of war matériel, like Portuguese tungsten, had become immensely easier, but this had been achieved at the expense of Britain bending its insistence that Allied gold not be traded directly onto the continent while hostilities lasted.

On December 30, 1943, the Bank of England made its last transfer to the Banque Nationale Suisse account in Ottawa -- 10,076 fine ounces of gold. As the year thus closed, the BNS had a total earmark deposit of gold in Ottawa of 4,617 bars or 1,861,817 fine ounces of gold, all conditioned by the terms set down in the spring of 1942 and all available for unimpeded export once the war was over. The BNS account did not, however, become inactive. On January 7, 1944, the pattern of relatively regular, relatively same-sized transfers of gold into the BNS resumed. This time, however, the correspondent or originator of the transfer was Canada's minister of finance. Realizing that the British had set a precedent for selling gold directly to European neutrals, Ottawa decided to begin covering its own needs for Swiss francs by selling gold to the Swiss and placing it on earmark until the end of the war. Having alleviated their own need for gold to bolster the domestic performance of the franc, the Swiss now renewed their willingness to build up their offshore reserves of gold, ready for postwar applications. Thus, on January 7, the Swiss took title to 4,445 fine ounces or 11 bars of Canadian gold in Ottawa. This gold was sold out of the Minister of Finance Special (Exchange Fund) Account, reflecting the Finance Department's traditional exclusive right to market Canadian gold from the Canadian Mint.

This pattern of Canadian gold passing to Swiss earmark continued until April 1947. By then, 109 transfers had taken place, all in the general range of 6-8,000 fine ounces.(106) This flow had fattened the BNS earmark account in Ottawa to 4,867 bars by the end of 1944 and to 5,479 bars by the end of 1945. With each swap, the BNS in Berne cabled Ottawa that payment for the gold (calculated at 150,074 francs for each 1,000 fine ounces of gold) had been deposited to the Bank of Canada's account at the BNS. The francs were then made available to Canadian banks to meet their Swiss- franc needs to cover Canadian commercial relations with Switzerland. The Canadian banks paid U.S. dollars into the Bank of Canada's account at the Federal Reserve Bank of New York for these francs. Canadian buyers of Swiss francs were thus required to go through Canadian currency controls. In 1944, for instance, Canadians bought US$5,674,754 worth of Swiss francs in this manner.(107)

Thus, the Swiss earmark account in Ottawa found a new purpose and a new, relatively unstrained rhythm for the

duration of the war.

GOLD FOR KRONOR:
THE PORTUGESE-SWEDISH SWAP AGREEMENT OF 1944-45

There was, however, one more episode of activity around the neutral country earmark accounts before the war finished. On February 12, 1944, the Swedish ambassador to Canada paid a call on the Bank of Canada. Sweden's central bank, the Sveriges Riksbank, had maintained an operating account with the Bank of Canada since soon after it had opened in 1935: early in the war there had been inconclusive discussion of another account that would act as assurance of Sweden's monetary stability in the event of an attack on the country. Dating back to 1668, the state-owned Sveriges Riksbank was Europe's oldest central bank and as such clearly commanded respect in Ottawa. The ambassador inquired whether the Bank of Canada would be interested in selling the Riksbank Canadian gold for earmark in Ottawa. Bank officials were receptive to the inquiry. They told him that Ottawa's "ability to deal in gold" depended on "whether we actually had gold in Canada surplus to our requirements which we were prepared to place under foreign earmark. We intimated also that, from time to time, there were other buyers in the market." Nonetheless, the Bank was prepared to offer a deal: gold at a discount rate of six cents per ounce off the New York price. The Swedes seemed particularly interested in having gold that could eventually be moved to New York. The ambassador also asked about the Riksbank's freedom to export the gold and was told that the minister of finance would have to be consulted, but it was likely that exports out of the hemisphere would not be permitted.(108)

Early in March, the Riksbank let the Bank of Canada know that it wanted to buy US$15 million in gold bars for Ottawa earmark. Sweden was prepared to hold gold in Ottawa subject to conditions devised in 1942 to cover other neutral country earmark accounts in Ottawa.(109) By March 15, the Riksbank had taken legal delivery in Ottawa of 1,076 bars or 429,111 fine ounces of Canadian-mined gold. Thus another neutral European central bank anxious to accumulate gold had arrived in Ottawa to avail itself of the Bank of Canada's earmarking services.

Late in August, the Bank of Canada received an inquiry from the Banco de Portugal, via London, asking if its gold in Ottawa was "good delivery, New York." It was. A week later, on September 6, the Portuguese instructed Ottawa to transfer "about 1,000 kilos gold fine...good delivery New York and earmarked under the conditions laid down in your letter of May 15th 1942."(110) In a second transaction a day later, 32,174 fine ounces -- about a ton or 80 bars of gold -- was credited to the Riksbank account from the Portuguese account. This was the first activity in the Portuguese account since it had received its original gold from the BNS in 1942. But then twelve days later on September 19 instructions arrived by cable from the Banque Nationale Suisse for 64,386 fine ounces -- about two tons -- of gold to be placed in the Portuguese account.(111) Thus, having shed one ton of gold to Sweden, the Portuguese almost immediately acquired another two tons from Switzerland.

On September 30, the Portuguese queried Ottawa whether the gold they had just taken title to was "good delivery New York" and whether it was held under the May 1942 conditions. Ottawa replied yes to both questions.(112) Two days later, on October 2, the Banco de Portugal instructed Ottawa to transfer "about 500 kilos fine gold" to the Riksbank. Ottawa

duly transferred 16,108 fine ounces to the Swedes.(113) Through all this staccato shifting of gold, the Bank of Canada simply followed the instructions it received. Since all parties involved openly acknowledged their compliance with the conditions laid out in the spring of 1942 for neutral earmark accounts, there was no obligation to pass the transactions past the minister of finance. Indeed, there was no written record of any internal consultation or querying of the Portuguese and Swiss requests.

Following the Riksbank's initial receipt of 120 bars -- one and a half tons -- of Portuguese gold in the fall of 1944, the two central banks then engaged in a series of shuffle trades of what appears to be essentially the same amount of gold back and forth between their Ottawa accounts. All of these transactions were paper transfers. They began in late November 1944 and early January 1945, when Sweden transferred back to Portugal the ton and a half of gold it had acquired in the fall of 1944. On January 26, Portugal sent half a ton back to Sweden, which was then returned by Sweden on February 28. Then in a series of six transfers from Portugal to Sweden beginning on May 7, 1945, and ending on September 13, 1945, Portugal transferred a total of 80,486 fine ounces to the Riksbank.(114) The purpose of these shuffle trades is nowhere made apparent, nor did they seem to occasion any undue attention in Ottawa. Once again, the late 1943 slackening of the early war injunction against direct trades of gold into neutral Europe had diminished Allied vigilance over gold trades between neutrals taking place outside of Europe. All of these Portuguese-Swedish swaps took place without delay or inquiry imposed by Ottawa.

Thus, a year after the Banco de Portugal and the Sveriges Riksbank first swapped gold, the Riksbank had acquired about two and a half tons of gold from Portugal. In January and June 1945, the Riksbank bought another 1,230 bars of gold from the minister of finance in Ottawa, so that by the end of 1945 the Swedes, through their direct buying and their transfers from Portugal, had accumulated 2,537 bars or 1,015,595 fine ounces of gold in their Ottawa earmark account. By the same date, the Banco de Portugal earmark in Ottawa had dwindled to 281 bars or 113,133 fine ounces of gold. Neither bank had physically moved gold out of Ottawa.

EARMARKING IN VICTORY:
EUROPEAN CENTRAL BANK ACCOUNTS IN OTTAWA, 1945-55

Throughout the war, much of the anxiety that had surrounded the earmarking of gold in Ottawa had revolved around differentiating ally, neutral and foe. All the conditions that were built into the agreements by which neutral and "occupied" countries were permitted to earmark gold in Ottawa were predicated on the eventual return of peace and a return to prewar normalcy, after which the earmarking of gold would revert to a straightforward, no-questions-asked central banking procedure. The most prominent example of the kind of wartime conditioning of the earmarking of gold was, of course, the guidelines laid down in the spring of 1942 and applied to the rights of Switzerland, Portugal and eventually Sweden to hold gold in Canada. Beyond such blanket injunctions, there had been much tailoring of the earmark procedure to the peculiar wartime situation of individuals and countries. France saw its gold frozen in Canada, largely as a result of political rather than moral or legalistic reasoning. Other occupied nations had been permitted to earmark as usual, even though their governments were in exile. And, in perhaps the greatest departure from normal central bank practice, the Bank of Canada had allowed the lodging of gold belonging to individual European refugees in its vaults. For all

of these parties, the return of peace promised the return of normal banking arrangements.

Perhaps strangely, the end of the European war did not signal a scramble to Ottawa to unravel the awkward implications of wartime earmark banking. There were no sudden closings of accounts, no hurried exodus of blocked gold out of Canada and no recriminations. For some nations, the impositions of wartime banking were lifted early. The Allied liberation of France cleared the way for the restoration of legitimate government under General de Gaulle and consequently under the provisions of P.C. Order #8965 the custodian of enemy property returned control of 11,135,127 fine ounces of gold to the control of the Banque de France on December 28, 1944.(115) Similarly, the liberation of Europe allowed other central banks to return to normal operation from similarly arduous, if less stringent, wartime constriction. The Bank of Canada was therefore quick to recognize the return of normal central banking authority to Norway, the Netherlands and Belgium. In some cases, there were changes in name -- the Norwegian government, for instance, established the Norges Bank in 1946 to act as its new central bank -- but for purposes of recognizing control over earmarked gold stored in Ottawa, these presented no problem. Only in the case of Bank Polski were there jurisdictional problems. The exiled central bank of Poland had been recognized by the Allies and allowed to operate its accounts during the war, but the postwar provisional government was of a different ideological stripe than its prewar predecessor. At first, Canada delayed honouring the new government's request that Polish gold in Canada be shifted to its authority. But such resistance flew in the face of the new geopolitical map of Europe and finally in July 1946 the Bank of Canada released control over gold earmarked in Ottawa to the authority of a new Polish central bank.(116)

Switzerland had perhaps the most to expect in Ottawa from the return of peace. Beyond England, it had the largest gold holding in Canada and, unlike England, its gold was blocked. Not surprisingly, not long after peace came to Europe, the Swiss inquired about their gold at the Bank of Canada. On July 11, Ottawa received a cable from the BNS in Zurich. For some years, the Swiss pointed out, they had made francs available to Ottawa free of restriction in return for gold that was blocked in Ottawa. "We suppose that these restrictions have lost their importance for you since the end of European war so that we may hope that our existing and future deposits with you will from now on be entirely free for use for transfer and eventual transport to Switzerland."(117) After checking with the acting deputy minister of finance, Dr. W.A. Mackintosh, the Bank replied that export licences would be granted to any "existing or future deposits" the Swiss held in Canada, except for those destined for "enemy countries," a provision that reflected the continuing war in the Pacific.(118) Despite this clearance, the Swiss did not empty their Ottawa earmark account overnight. Instead, it in fact grew. By year's end in 1945, Switzerland had 5,479 earmarked gold bars in Ottawa. A year later, the total had climbed to 6,259 bars.

There is no documentary record that either Portugal or Sweden sought to clarify the status of their Ottawa gold in the months following the peace. In June, the Riksbank did write to query postwar exchange arrangements between Stockholm and Ottawa, but there was no mention of earmarked gold, except that Sweden might sell such gold to generate U.S. dollars.(119) Neither Sweden nor Portugal cleaned out their gold accounts in Ottawa with the peace. In fact, at year-end 1945 and year-end 1946, they had exactly the same earmark balances -- 2,537 Swedish bars and 281 Portuguese bars.

The earmarking of gold in Ottawa hit its peacetime stride with remarkable ease. Only a handful of small earmarks that had only wartime rationales (e.g., the Bank of Bolivia and the Banque Melli of Iran) left completely. Otherwise, earmarking flourished at the Bank of Canada. New European clients arrived -- Austria and Denmark in 1951 and West Germany(120) in 1954.

While normal earmarking reestablished itself after the war, one last legacy of wartime earmarking was quietly wound down. The sundry persons account had been holding gold since 1940-41 for as many as 155 depositors who had sought to protect their personal wealth by moving it across the Atlantic and placing it in the safekeeping of the Bank of Canada. In point of law, these deposits were included in the Bank of England's earmark account in Canada and those who had entrusted their gold to the arrangement were beholden to London, not Ottawa, in matters of control over their deposits. Throughout the war, inquiring depositors were invariably told that their gold would not be "allowed free disposal until one month after the expiry of the Emergency Powers (Defence) Act, 1939" in Britain, except in exceptional conditions. The minority -- about 22% -- of the depositors were successful during the course of the war in convincing the Bank of England that their need, and presumably their *bona fides* in the eyes of the Allies, outweighed any risk of releasing their assets during hostilities. The rest of the depositors quietly waited out the war.

On December 12, 1945, the British Parliament voted for the repeal of the Emergency Powers Act on February 24, 1946. The Bank of England soon began to receive requests for the release of gold under the sundry persons account in Ottawa. From the outset, the release process worked smoothly and without obstacle. Once London approved the release, depositors had various options in reclaiming their gold or its equivalent value. The Bank of Canada made it clear that it would not earmark gold for private citizens and that the gold would have to be claimed and taken away. Upon release, gold could be shipped to England or another European country through the intermediary of a Canadian chartered bank. This would necessitate the obtaining of an export permit and the payment of shipping charges. The Bank of Canada itself offered on behalf of the minister of finance to buy small amounts of gold, but warned that this might snare foreigners in Canada's non-resident foreign exchange controls and thereby make the proceeds of the sale non-convertible. It was also suggested that if the central bank of the depositor's homeland had an Ottawa earmark account, the gold might be sold to it and the depositor receive payment in the national currency. It was, for instance, suggested by the Bank of Canada that the Banque Nationale Suisse might buy the gold of Swiss nationals in return for francs.

By May 1946, instructions began arriving at the Bank of Canada for the disposition of gold held in the sundry persons account. By 1955, 107 such requests were received and processed. In all these cases of release, the Bank of Canada had received assurance from the Bank of England that London had satisfied itself that none of the claimants were of enemy origin. Sometimes these claims came directly from the depositor or his/her agent. Sometimes they came from a Canadian chartered bank that had been instructed to collect the gold and forward it or sell it in behalf of the depositor. Whatever the instruction, the Bank acted expeditiously. Demand for transfer not surprisingly peaked in 1946 and 1947, with 84 requests processed, but claims were registered throughout the rest of the decade. In 1949, for instance, a lawyer in London, England, wrote to claim gold in the account on behalf of the sole heir of a wartime depositor in the sundry

persons account who had subsequently died. The Bank of England had approved the release and a New York lawyer had been designated to collect the gold. "We understand," the letter concluded, "that Mr. Katz [the client's lawyer] has already been in direct communication with you regarding the form in which the gold will be handed over, and we should be greatly obliged if you would give him any information he may require in this connection."(121) A Bank of Canada official pencilled at the bottom of the letter: "We have done so."

On June 7, 1955, the last sundry persons deposit was claimed and settled. When the Bank of Canada informed the Bank of England of this transaction, London replied that "the repayments under the Foreign Owned Gold Scheme are now complete." The account should therefore be closed. Since the Bank of England had also employed the same account to hold various small amounts of gold for other purposes, it instructed Ottawa to transfer the residue of the account -- some gold coin -- into its main Bank of Canada account. The chief cashier of the Bank of England ended his letter of instruction to Ottawa by noting: "I should like to take this opportunity of expressing the Bank's thanks for your co-operation over the years in the administration of the Scheme." The Bank of Canada's June 28 acknowledgement of this instruction is the last piece of correspondence in the sundry persons account file. In effect, it marks the end of the Bank of Canada's involvement in the earmarking of foreign gold in World War II.

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71. See: BOC file 135-7.

72. G.L.F. Bolton to Donald Gordon, September 18, 1940, BOC file A18-17-8.

73. F.E.C. Notice 234/44, September 12, 1940, copy in BOC file A18-17-8.

74. Bolton to Gordon, November 4, 1940, ibid.

75. Gordon to Bolton, October 10, 1940, ibid.

76. BOC file 1062-A. Another four such deposits were received into this account after the war.

77. Bolton to Gordon, November 4, 1940, ibid.

78. Bolton to D.G. Marble, October 30, 1940, ibid.

79. See, for example, Donald Gordon to New York lawyer representing a gold client, November 4, 1940, ibid. Name withheld in deference to privacy legislation.

80. S. Turk to New York Trade Commissioner D.S. Cole, July 2, 1942, ibid.

81. D.S. Cole to S. Turk, June 30, 1942, ibid.

82. Sundry persons account holder to D.S. Cole, June 27, 1942, ibid. Name withheld in accordance with Canada's Access to Information and Privacy Acts (ATIP).

83. BOC file A18-19-9.

84. My interpretation of the Anglo-Swiss trade and monetary relationship relies heavily on an excellent article, "The Swiss Franc and British policy towards Switzerland, 1939-1945," by Neville Wylie, New Hall & Centre of International Studies, University of Cambridge. A copy of this article was kindly forwarded by the Foreign and Commonwealth Office in London.

85. Wylie, "The Swiss Franc...," p.2.

86. Norman to Towers, March 9, 1942, BOC file A17-1. It should be noted that this quotation is taken from the file containing the arrangements and correspondence for the Banque Nationale Suisse earmark account that was about to be opened at Bank of Canada in 1942. The file for the Bank of Canada's arrangements with the Bank of England (BOC file A18-17) is missing for the period February 1941 to June 1945. This gap in documentation is discussed in the section of

this report entitled "The Documents."

87. Norman to Towers, March 18, 1942, ibid.

88. Towers to Norman, March 19, 1942, ibid.

89. Towers to Clark, March 19, 1942, ibid.

90. Clark to Towers, April 7, 1942, ibid.

91. Towers to Norman, April 23, 1942, ibid.

92. Towers to Norman, April 28, 1942, ibid.

93. Bank of Canada to BNS, May 2, 1942, ibid.

94. Towers to Clark, May 2, 1942, ibid. and circular letter from G.F.Towers to general managers of Canadian chartered banks, May 4, 1942, BOC file 135-15.

95. All statistics in this section taken from the gold record reconstructions undertaken by the Bank of Canada Gold History Project, 1997.

96. MBOC, full board June 22, 1942. There had been no mention of the Swiss arrangements at the board's April 24 meeting.

97. BNS to Bank of Canada, April 22, 1942, BOC file 515-17-5.

98. Bank of Canada to BNS, April 21, 1942, ibid.

99. Banco de Portugal to Bank of Ottawa, April 30, 1942, ibid.

100. Towers to Banco de Portugal, May 15, 1942, BOC file 515-17-5.

101. Clark to D.G. Marble, May 16, 1942, BOC file A-17-1.

102. Norman to Towers, November 28, 1942, BOC file A17-1. Some words in this cable ("ascribed....Francs") were possibly garbled and were being checked by the cable company.

103. Towers to Norman, December 2, 1942, ibid.

104. Norman to Towers, December 17, 1943, ibid.

105. Clark to D.G. Marble, December 20, 1943, ibid.

106. A complete listing of these swaps is attached to L.P.J. Roy to BNS, June 13, 1945, ibid.

107. Foreign Exchange Control Board memo by S. Turk and C.D. Blyth, February 7, 1945, ibid.

108. Chief of Foreign Currency Division to Secretary, Bank of Canada, February 14, 1944, BOC file A16-3.

109. Sveriges Riksbank to Bank of Canada, March 8, 1944 and D.G. Marble to W.C. Clark, March 8, 1944, ibid.

110. Bank of England to Bank of Canada, September 6, 1944, BOC file A16-3. All Banco de Portugal communications to Ottawa passed through the Bank of England.

111. BNS to Bank of Canada, September 19, 1944, BOC file A17-1.

112. Bank of Canada to Bank of England, September 30, 1944, BOC file 515-17-5.

113. Ibid., October 2, 1944.

114. All these transfers are documented in BOC files 515-17-5 and A16-3.

115. BOC file A 6-4.

116. BOC file A13-2.

117. BNS to Bank of Ottawa, July 11, 1945, BOC file A17-1.

118. Bank of Canada to BNS, July 12, 1945, ibid.

119. Bank of Canada to Sveriges Riksbank, June 11, 1945, BOC file A 16-3.

120. The West German central bank, the Bank deutscher Länder, had been created in 1948 and was totally distinct from the wartime Deutsche Reichsbank. There is no connection between the 1954-56 gold transactions conducted by the Bank deutscher Länder and any gold transactions that took place during World War II and immediately after the end of that war.

121. London lawyer representing sundry persons account holder to Bank of Canada, August 29, 1949, BOC file A18-17-8.

This page is part of a report prepared for the Bank of Canada
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Due Diligence
A Report on the Bank of Canada's
Handling of Foreign Gold During World War II

The European Perspective
1942-45

Any deal has two sides. There are buyers and sellers. In the case of earmarking gold in foreign central banks, there are in fact often more than two parties. That is to say, an initial deposit of earmarked gold naturally involves the depositor and the host bank. If the depositor, however, subsequently decides to transfer ownership to another central bank and requests the host bank to do so, three parties become involved in the process. While the old owner of the gold and its new holder may be fully aware of the circumstances prompting the transfer, the host bank will usually know no more than the bare terms of the transfer instruction. For the host bank, it is a simple custodial function. Elsewhere in this report, it has been argued that the advent of war in 1939 obliged the Bank of Canada to modify the conditions under which it would take instruction from its earmark clients, but the relationship still largely remained one of instruction without explication of purpose. Only the Bank of England, with its intimate contacts with the senior officers of the Bank of Canada, usually revealed the pressures behind its needs. Hence, the Bank of Canada was in many instances a blind participant in fiscal transactions that touched the gold in its vaults. As a result, the Bank of Canada's records tell only one side of a story and cast only a partial light on the motivations of its European partners.

The commissioning of this report was prompted by allegations that between 1942 and 1944 the Bank of Canada was party to a series of gold swaps that enabled neutral Switzerland and Portugal to launder "a significant amount of looted gold" through their earmark accounts in Ottawa and at the Federal Reserve Bank of New York. The principal purpose of this report has been to research and to present the *Canadian* perspective of these events, drawing from historical records over which Canada has complete control and unfettered access. To what degree did the Bank of Canada understand the full implications of the transactions which it facilitated? Did it act with due diligence? A secondary challenge, however, remains -- trying to establish some sense of the European side of these transactions. As this project's mandate remarked: "This project does not have as an objective to document the history of international gold movements during the war, but the secondary results of research by other governments, central banks and others may be useful in providing context for the Canadian story."

GATHERING HISTORICAL INFORMATION IN EUROPE

Creating some sense of the European side of these gold swaps presented formidable challenges. Time was precious

and the logistics were daunting. There was no assured access to the archives of European central banks. Language barriers loomed. Records procedures would undoubtedly be unfamiliar. Other countries had their own access-to-information and privacy protocols. There was, however, one very encouraging sign. Since 1995, European central and commercial banks in England, Switzerland, Portugal and Sweden had been prompted by public controversy over the issue of Nazi gold and dormant bank accounts to launch historical investigations into their own roles in wartime financial arrangements. By the summer of 1997, these investigations were well under way and receptive to outside inquiry. They were largely staffed by independent professional historians and accountants who had been given a wide mandate to present as thorough and transparent an analysis of each bank's wartime role as their records made possible. In light of this opportunity, it was decided that the most expedient means of creating some sense of a European perspective was to approach each of these institutions or commissions with a detailed request for information on the 1942-44 gold swaps.

Approaches were therefore made to five historical commissions/teams currently active in Europe. Four are working under the auspices of their central banks: the Bank of England, the Banco de Portugal, Sveriges Riksbank and the Banque Nationale Suisse (BNS). The fifth was the Commonwealth and Foreign Office in London, a group that has been actively reporting its wartime gold research under the title Nazi Gold. The requests from Canada were tailored to the particular role played by each nation in wartime financial arrangements, with a special eye to its contacts with Canada and its central bank. These requests all contained some common elements. Were there records of the specific transactions that involved the Bank of Canada in the 1942-44 period? Were there other references to Canada's role in wartime transatlantic financial arrangements? Did their files contain any memoranda or background papers that shed light on how Canada fit, if at all, into their country's overall wartime financial strategy? Could their research provide any sense of the real motivation that lay behind these swap transactions? In each case, the request contained detailed information, drawn from Bank of Canada records, guiding the recipient to the specific events that involved Canada (e.g., the Anglo-Swiss francs-for-gold swap and the subsequent gold transfer from Switzerland to Portugal in the spring of 1942). These requests were all despatched to Europe in the last week of August 1997.

Without exception, all the requests met with a cooperative response. All were quickly acknowledged and brought some sense of when a detailed response could be expected. Most of the respondents commented on the heavy pressure under which they themselves were operating in trying to fulfil the mandates set by their own central banks. It should be acknowledged that the archives of the Bank of England and the Banque Nationale Suisse were especially forthcoming in responding to our requests. The Bank of England, for instance, arranged for large sections of their files relating to Canada to be microfilmed and sent by courier to Canada. Not one of the respondents set any condition on their willingness to furnish us with information. (In the wake of the recent controversies surrounding the Nazi gold issue in Europe, there now appears to be broad understanding of the high price in public credibility that banks will pay for being unwilling to be open to public attention in these matters.)

The subsequent arrival throughout September of dossiers of information from the five historical groups in Europe allowed a fairly coherent picture of the European perspective on the gold swaps of 1942-44 to be reliably pieced together. As

these reports became available, one fairly common trait emerged: there was very little documentary trace or present-day consciousness of Canada or the Bank of Canada in the European historical work on this issue. With the exception of the Bank of England, which reported the existence of ten files relating to Canada, the other respondents all invariably commented that their search for documents and their examination of their own research yielded little on Canada. In all of their minds, Canada seemed to occupy a marginal role in the reconstruction of wartime financial relations that they were undertaking. A good example of this was provided in the prompt and cooperative response to our August inquiry by Dr. Gill Bennett, head of historians, at the Foreign and Commonwealth Office in London. Bennett's group has been busy researching Britain's part in wartime gold for over a year and has produced two studies of their findings under the title *Nazi Gold: Information from the British Archives,* published in September 1996 and May 1997. Bennett wrote in response to our inquiry:

> ...I have looked through the documentation we have collected on Nazi gold for any references of gold to Canada before or during the Second World War, but without success. There may be references to such transfers in files at the Public Record Office [Britain's national archive], but the Foreign Office Index for 1942, for example, does not indicate the presence of such information either under headings for Banks and Banking, Canada, or Switzerland. It would be necessary to check each reference to Canada and Switzerland under the broader heading of 'Gold' to be sure....The fact that we have found no references in the large amount of material we already hold here leads me to think, however, that such an effort may well yield disappointing results.(1)

It bears reiteration that the massive American study of wartime gold commissioned by President Clinton and headed by Under Secretary of Commerce Stuart Eizenstat -- *U.S. and Allied Efforts To Recover and Restore Gold and Other Assets Stolen or Hidden by Germany During World War II* (Washington, 1997) -- does not contain a single reference to Canada. The Eizenstat report was based on research among some 15 million pages of documents in the National Archives in Washington. When this trove of documents was reviewed by researchers from the World Jewish Congress, only a single document implicating Canada was uncovered -- the 1944 "From a very Confidential Source" memorandum alleging gold laundering through Ottawa. It was that document that quite appropriately triggered this project.

The scant impression left in Europe of Canada's wartime role in gold in no way deterred our efforts to reconstruct the motivation that lay behind the actions of the European parties to the swaps of 1942-44. In the material supplied to us, three distinct episodes were examined: the initial swap of British gold for Swiss francs between 1942 and 1943, the 1942 swap of part of this gold from Switzerland to Portugal and the 1944 swap of Portuguese gold to Sweden in company with a further transfer of Swiss gold to Portugal. The following reconstructions were therefore based on a mixture of original central bank documentation, documents emerging out of the postwar Allied effort to identify looted gold and present-day historians' opinion.

THE ANGLO-SWISS GOLD-FOR-FRANCS SWAP OF 1942-43

It was the 56 tons of gold that England provided Switzerland with through 1942-43 in exchange for Swiss francs that

provided the feedstock of bullion for the subsequent contentious swaps between the Swiss and the Portuguese and, ultimately, between the Portuguese and the Swedes. This gold never physically left Ottawa. It was part of the Bank of England's earmark account at the Bank of Canada, built up by outright purchase and actual transfer from England in the late 1930s and the early war years. There is therefore absolutely no possibility that the gold in question was tainted in the sense of containing gold looted by the Germans in Europe. This was clean gold. What is more appropriately in question is the motivation that first led Britain to begin transferring ownership of the gold to neutral Switzerland in 1942, thereby putting the neutral Swiss in a position to redeploy some of this gold to the earmark accounts of other neutral powers in Ottawa.

Two factors above all else explain the Anglo-Swiss swap of 1942: Britain's desperate need for Swiss francs and Switzerland's need for gold and British trade to stabilize its commercial and financial performance. As has been explained in an excellent paper by Professor Neville Wylie of Cambridge University, "London's acute shortage of Swiss currency" in the early years of the war coloured its entire attitude to neutral Switzerland.(2) This shortage was "perennial" and was rooted in Switzerland's prewar balance of trade surplus with Britain. In 1938, for instance, Switzerland exported SFr149.7 million in goods to Britain, but imported only SFr97.2 million. By 1940, the gap had narrowed -- SFr96.6 million in exports to SFr89.6 million in imports.(3) What had changed in war was Britain's ability to find the francs to cover its purchases of Swiss goods, many of which were directly related to Britain's war economy and military needs. Even after her ability to trade directly with Switzerland was restricted by the Axis encirclement of the neutral Swiss in 1940, Britain kept trading with the Swiss, even if this necessitated smuggling goods out of the country.(4) Other invisible expenses, such as the cost of maintaining a legation and possibly supporting covert operations based in Switzerland, also placed demands on Britain's supply of francs. To replenish its supply of francs, Britain sold sterling, Bank of England gold and eventually drew on its own cache of U.S. dollars to procure francs.

By early 1942, francs were becoming harder to procure. The United States had issued injunctions against the use of its dollars in European trade for fear that they would find their way into Axis coffers. For a while, Britain even skirted these regulations by drawing dollars out of commercial banks in New York so as not to alert the U.S. Federal Reserve to its activities. However, Britain's obligation to the United States under the 1941 Lend-Lease Agreement and America's subsequent entry into the war ended this expedient and deceptive means of securing hard currency for trading with Switzerland.

In a parallel subterfuge, the British ignored Swiss requests that the Bank of England transfer part of its store of earmarked gold from London to safer New York. Instead, the Bank of England added some of the Swiss gold to its own transfers of earmarked gold to Ottawa and retained the rest in London. Thus, the British retained control over Swiss gold either in London or in Ottawa, thereby providing themselves with a possible hedge in their commercial relations with the Swiss. Thus, as Professor Wylie has pointed out, by "the winter of 1941/42, the Bank of England was doubly compromised," having gone counter to American currency regulations and at the same time undermined Swiss efforts to find safe haven for their gold in the United States.

This delicate situation became worse when in early 1942 the

Swiss, heeding American warnings, refused to take any more U.S. dollars from the British. This coincided with British anxiety that Switzerland was trading too heavily with the Axis. In July 1941, a Swiss-German economic agreement had provided Germany with a credit of SFr850 million that the British viewed with alarm and immediately countered with restrictions on exports of British raw materials to Switzerland. If Switzerland limited its exports to the Axis or increased its shipments of strategic goods to Britain, the British said that they would ease their restrictions on exports to Switzerland. At this awkward juncture, the British hit on the idea of raising francs by selling their gold earmarked in Ottawa or sterling blocked in foreign banks in exchange for Swiss francs. This was exactly the import of Montagu Norman's March 8, 1942, cable to Bank of Canada Governor Graham Towers: "...Difficulties have lately arisen mainly owing to United States freezing policy. Swiss are now reluctant to accept U.S. dollars without special license for their transfer to third party."(5) Negotiations were under way to test the Swiss reaction to this offer, Norman reported.

The Swiss were not enthusiastic. As Switzerland's central bank, the Banque Nationale Suisse was tasked with keeping Swiss inflation under control, and in an economy being fanned by wartime demand this meant maintaining a reserve of gold and/or foreign currency within Switzerland's borders. The yardstick for this was a gold or foreign currency reserve equal to 40% of the money in circulation in Switzerland. This operation was already proving difficult because so much -- between 33% and 50% by some estimates -- of Switzerland's gold was already situated *outside* Switzerland, blocked in London and New York until the end of hostilities and therefore useless for purposes of internal monetary control. As Professor Wylie concludes: "The last thing the National Bank [BNS] wanted was to accumulate further quantities of sterling or gold in London which could not be touched until the end of the war." Adding to the pressure on the franc was the fact that Switzerland had in late 1941 agreed to take responsibility for protecting British assets blocked in Axis territories. This too required francs to flow from Britain to Switzerland and, to the dismay of the BNS, most of these francs went to non-commercial circulation, thereby exerting inflationary pressure on the Swiss economy. Rather than further jeopardize the internal stability of the Swiss economy, the BNS in March 1942 adopted an adamantly vigilant attitude toward any further release of francs for blocked gold beyond Switzerland's borders.

A protracted negotiation thus began in London. In February 1942, Berne appointed a delegation -- composed of a government minister and two academics -- to treat with the English. For both sides the issue was currency liquidity -- the British appetite for francs and the Swiss desire to conserve francs and gold within their borders. Throughout 1942 and 1943, several tentative agreements were drafted but fell apart, usually because of disagreements over what materials were to be allowed to enter Switzerland in the wake of sterling/gold-for-francs swaps.

This impasse opened the way for the swap of British gold held in Ottawa for Swiss francs that began on March 25, 1942, with an initial transfer of 66,815 fine ounces from the Bank of England earmark account in Ottawa to the newly established account of the BNS in Ottawa. Both sides regarded the Ottawa arrangement as a *pro tem.* measure, designed to feed the British with a minimum supply of francs to cover their basic needs (e.g., legation expenses) until some more durable arrangement could be negotiated in London. As a Bank of England official noted in a letter of April 15, 1943: "...This is a purely temporary arrangement and one which the Swiss, with a declining gold stock at home, accept

reluctantly."(6)

The Swiss were indeed extremely reluctant to enter this swap arrangement. As a BNS internal memo noted in mid-January: "While, on the one hand, the National Bank must hand over freely available Swiss francs and pay them out on behalf of the Bank of England in Switzerland and other countries, in return, it receives non-transferable pounds and gold stocks stored in Ottawa that, for all practical purposes, cannot be used by the Swiss economy during the war. The grave danger that this development represents for the Swiss price structure is clear. The question is whether it will be possible to eliminate the inflationary effects for the Federation or prevent the bank of issue from continually issuing new money via taxation and other measures that tie up market resources."(7) In short, blocked gold in New York or Ottawa could not be fed back into the Swiss economy or used to pay for its imports. Thus, Switzerland was unable to satisfy all of its internal demand for imports and inflation resulted from the fact that wartime demand outstripped supply. A Swiss exchange of francs for earmarked gold in Canada was a way of mopping up Swiss francs and reducing potential inflationary pressures in Switzerland.

The board of the BNS was by early February of 1942 still "not much in favour of a transfer of gold stocks to Canada."(8) The Swiss were eventually persuaded to accept this temporary gold-for-francs arrangement because, while the gold they were to receive by it was still blocked in the sense that it could not be brought directly to Switzerland, it was nonetheless freer to move than the blocked gold they had in London and New York, which was frozen hard *in situ* until the end of the war. As the minute book of the BNS board of directors noted on March 26, the gold it received on earmark in Canada "could be exported to other central banks in the Western Hemisphere and transferred to the same central banks, as well as to the central banks of the neutral European countries, Sweden, Spain and Portugal."(9) To some degree, therefore, the gold in Ottawa was portable and might through some combination of circumstances ultimately be brought home indirectly before the end of the war.

The swap of gold for francs in Ottawa thus satisfied, albeit temporarily and imperfectly, the needs of both Berne and London. The arrangement was the product of London's desperation and ingenuity and was clearly accepted *faute de mieux* by the Swiss. As Montagu Norman of the Bank of England noted, Swiss agreement "represented a concession by the Swiss National Bank to avoid a breakdown in the financial relations between the sterling area and Switzerland."(10) It provided the rationale for the 155 regular and relatively equal transfers of gold from British to Swiss ownership that followed throughout 1942 and 1943, feeding francs to the British, thereby keeping their financial lifeline to Switzerland in place. There is no documentary evidence, in either the Bank of Canada records or in the Bank of England files sent to us, that the Anglo-Swiss swap was designed to help Britain "assist prisoners of war in Germany," as Graham Towers told the Bank of Canada board of directors in June 1942. It is possible that some of the francs secured by the deal went to humanitarian payments via the Red Cross in Switzerland, but no proof of this has been found. Switzerland was also, for instance, a much-used gateway to freedom for escaped British prisoners of war; such passages to freedom required Swiss francs.

In December 1943 the British negotiators, still facing a chronic shortfall of francs in England, finally broke the deadlock by offering the Swiss what they had wanted all

along: the ability to bring gold into neutral Europe. In practice, British gold would now be placed at the disposal of the Swiss, who could use it to satisfy their commercial accounts in Spain and Portugal, thereby conserving their hard currency and gold reserves at home. The agreement also freed hitherto blocked gold acquired in London by the Swiss during 1943 and placed it at Switzerland's disposal in neutral Europe. Significantly, the accord did not free Switzerland's accumulated earmarked gold in Ottawa, but instead reconfirmed the original conditions set upon it in 1942. The Ottawa gold would not be free for patriation to Switzerland until six months after the end of Britain's war with Germany. Not surprisingly, as soon as the Anglo-Swiss accord came into operation on January 1, 1944, the Swiss stopped accepting gold in Ottawa for francs. Ottawa gold was still blocked gold. Gold available in London was now more versatile.

What is striking from the perspective of this report is that both the Bank of England records submitted to us and the lengthy commentary and packet of documentation supplied by the Banque Nationale Suisse were in spontaneous agreement over the above course of events and the motivation behind it. Both saw Anglo-Swiss relations from 1939 to 1943 as essentially an ongoing liquidity crisis. The principal concern was to keep the flow of Anglo-Swiss wartime trade going and, particularly from the Swiss perspective, to allow the BNS to restrain inflationary pressures in the Swiss economy.(11) Anxiety over the possibility that looted German gold might find its way into the mainstream of European finance seemed to take a distinctly secondary role in these proceedings. The imposition of conditions that confined Swiss gold earmarked in Ottawa to movement within the Western Hemisphere and paper transfer to European neutrals seemed to provide London with the assurance that the integrity of its dealings with Switzerland was being protected.

THE SWISS-PORTUGESE GOLD SWAP OF 1942

Thus, in the spring of 1942, gold owned by a European neutral power began to accumulate in Ottawa under earmark: 66,815 fine ounces on March 25, another 6,862 ounces on March 28, 13,328 ounces on April 7 -- the payments quickly became regular. By the end of 1943, the transfers would equal 56 tons of gold. Ottawa became one of Switzerland's offshore gold havens, never rivalling New York and London in the magnitude of its holdings, but joining Stockholm and Buenos Aires as secondary locations of earmarked gold. Despite the delicate balance of its internal monetary affairs, Switzerland continued to be a net purchaser of gold from the Allies throughout the war. The United States was the principal seller of gold to the Swiss, selling some SFr1,178.2 million from 1939 to 1945. Britain followed with sales (that would have included the gold earmarked for Switzerland in Ottawa) of SFr580 million, while the French Vichy government sold SFr117 million in gold to the Swiss during the war (although their sales were packed into 1942 and 1945). Even Canada sold Canadian-produced gold to the Swiss, some SFr5.3 million worth, much of it sold after the British and Swiss struck their January 1944 deal to allow Allied gold freer access into Europe.(12)

Only one country sold more gold to the Swiss than the Americans -- Germany. From 1939 to 1945, the Reichsbank sold SFr1,210.3 million worth of gold to the Banque Nationale Suisse. A large portion of this passed through Switzerland to other neutral countries in Europe that were trading with the Axis. Portugal took SFr451.5 million and Spain SFr185.2 million.(13) Gold transfers into Switzerland were paralleled by

a flow of usable foreign currencies into Switzerland. Much of the gold was gold looted from the vaults of European countries that had fallen under Axis occupation; some small amount of it was already probably non-monetary gold stripped from citizens of these same countries.

By late 1941, the Allies, sensing that Germany's meagre prewar reserve of gold was long spent in the initial years of the war, began suspecting that Germany was financing its war effort with looted gold. The British Ministry of Economic Warfare and the newly created Office of Strategic Services in the United States began to monitor gold flows out of Germany. In mid-1942, the British began pressuring the other Allies for some sort of diplomatic injunction against countries accepting looted goods in trade with the Axis. These early efforts were piecemeal and the knowledge of the full extent of Axis bartering of looted gold still vague. But one of the first clear realizations was that the Banco de Portugal was the primary recipient of Banque Nationale Suisse exports of gold, a fact that was quickly linked to the belief that much of this Iberian-bound gold was of Axis origin. At the heart of this early intelligence was the discovery that the Banco de Portugal maintained four accounts at the BNS: Accounts 'A', 'B', 'C' and 'D'. Allied intelligence and postwar account reconstructions have strongly tended to the view that it was accounts B, C and D that the Banco de Portugal employed to carry looted gold from Berne to Lisbon, leaving account A as a legitimate account. For example, a British intelligence report dated August 31, 1944, noted that "intercepts" of coded Portuguese communications indicated that "the gold sold by the Bank of Portugal came from their Account 'B' at the National Bank of Switzerland, i.e., gold with a German taint."(14) Another Allied intelligence document dated September 22, 1944, recapitulated the "estimated gold holdings of the Bank of Portugal at 30/6/44" and indicated that the overwhelming amount of gold "consigned to Portugal" was both received from the BNS and drawn to Lisbon from accounts B and C. Account A registered minimal activity with few transfers to Lisbon and was generally believed to contain only clean (i.e., untainted by Axis looting) gold.(15) While this pattern of moving gold from the Reichsbank through Switzerland to Portugal was only imperfectly understood by Allied intelligence in 1942, its contours were of course familiar to the BNS.

Despite the fact that the Anglo-Swiss gold-for-francs swap was in place in the late spring of 1942, Switzerland still faced the same monetary dilemma. It needed gold and hard currency to secure the internal stability of its wartime economy. Negotiations in London had bogged down. Thought therefore soon turned to ways in which the BNS's mounting store of gold in Ottawa could be directed to Switzerland's monetary advantage. Could the unique hemispheric conditions imposed upon its physical movement and paper transfer be somehow turned to Switzerland's pressing monetary needs? Probably the first test of these conditions came on April 28, 1942 -- just a month after the first swap payments entered the BNS's new Ottawa account -- when the BNS cabled the Bank of Canada to inquire whether a Swiss commercial bank could open a gold account at the Bank of Canada or if the Bank of Canada would permit the BNS to make a "special gold deposit with your bank under our name," such deposit to contain gold owned by a Swiss commercial bank.(16) The request aroused suspicion in Ottawa. Towers cabled Norman: "We are curious to learn what gave rise to the inquiry and before replying should like to know if you have any comments to offer."(17) The Bank of England answered that the purpose of the BNS proposal was all too apparent. Dual BNS-Swiss commercial bank accounts in Ottawa would allow the BNS to transfer gold between these accounts in

Ottawa, thereby allowing it to take gold in Switzerland acquired by commercial banks (possibly from dubious sources) in return for legitimate, but blocked, gold in Ottawa. When Graham Towers referred the proposition to Montagu Norman in London, the Bank of England adamantly opposed the idea. "We suspect," Norman told Towers, "therefore that the Swiss National Bank proposes to buy gold in Switzerland irrespective repeat irrespective of origin and ownership either against sales of equivalent gold in Canada or a guarantee to the original holders that the Swiss National Bank holds the equivalent gold in Canada to his order."(18) On May 2, the Bank of Canada shut the door on the Swiss proposal: "...under existing conditions there are obstacles in the way of acceptance of gold deposits unless the gold is the property of a central bank. We regret to advise therefore that it would not be possible for us to enter into the arrangements mentioned in your cable."(19) In the wake of this decision, Governor Towers sent a circular letter to all the general managers of Canada's chartered banks requesting that, in deference to the government's wishes, they not open any new gold earmark accounts for non-residents and to report any such requests to the Bank of Canada.(20)

The BNS, however, already had an alternative plan. A week before it tested the idea of opening Swiss commercial accounts in Canada, it instructed the Bank of Canada on April 21 to transfer 64,395 fine ounces of its newly acquired Ottawa gold to the Banco de Portugal. There was evident haste in this request, since the Portuguese did not as yet officially have an account in Ottawa. Once that was accomplished on April 30, the BNS cabled that another 64,837 fine ounces be credited to the new Portuguese account.(21) Thus, within two weeks the Banco de Portugal acquired four tons of earmarked gold in Ottawa. Since the transfer took place entirely within the terms of the original Anglo-Swiss swap -- the gold had been transferred to the central bank of another European neutral power and was not physically leaving the country -- the deal occasioned no undue comment in Ottawa. Ottawa had no idea of what transaction lay behind the BNS transfer of four tons of its gold; the host to an earmark account merely followed the instructions transmitted to it by a client.

What the Canadians did not know was that in releasing four tons of its blocked gold in Ottawa the BNS had gained possession of a similar quantity of gold in Berne out of the account of the Banco de Portugal. Four tons of gold blocked in Ottawa until the end of hostilities had thus been in effect patriated to support the domestic requirements of the BNS. Before striking this deal with the Portuguese, the BNS had offered a similar trade to the Riksbank in Stockholm, but the Swedes had declined.(22) Why would the Banco de Portugal facilitate such a deal, a deal that left it with gold blocked on the other side of the Atlantic? Principally because the Swiss were prepared to pay a hefty commission to Portugal on the transaction. The initial April 22 swap of Berne-for-Ottawa gold cost the BNS a commission of 1.5% and the subsequent swap of May 5 brought a handsome 2.5% commission. The total cost of these commissions was therefore approximately SFr428,000 on a total sale of SFr19.56 million. At its May 7, 1942, meeting, the BNS board of directors decided that such commissions were "too high to speak about" and dropped any further thought of swapping gold in Ottawa with the Portuguese.(23) With negotiations with the British still producing little result in London, the BNS was still sorely tempted to parlay its Canadian earmarked gold to its European advantage. In June of the same year, the BNS learned that the Riksbank in Stockholm had an ample supply of Swiss francs -- francs that if patriated could serve the BNS's domestic needs -- and suggested that it might acquire

some of these by selling the Swedes gold in Ottawa. The Swedes declined. Later, in September 1942, the BNS sent a delegation to Lisbon and then Stockholm again to try to swap gold in Ottawa for francs in neutral Europe. Again, the offer was spurned; blocked gold in Ottawa had little allure.(24)

What was the origin of the four tons of Portuguese gold that the BNS now owned in Berne? Nobody in Ottawa asked. Neither did the Bank of England signal any interest in its cables across the Atlantic, even though it was acting as the Banco de Portugal's intermediary with the Canadians. Others closer to the actual swap did wonder. On June 25, 1942, David Eccles at the British Embassy in Lisbon expressed his concerns to the Ministry of Economic Warfare -- the arm of government that oversaw Britain's economic campaign against the Axis -- in London:

> You will have seen the reports of the gold transactions between the Bank of Portugal and the Swiss National Bank, whereby the former has taken over gold belonging to the latter in Canada and released to the Swiss Bank gold belonging to itself deposited in Switzerland. As far as I can see, the result of this transaction is to free gold in Switzerland, which the Germans may now get hold of. I do not know what are the estimated quantities of gold available to the Germans, but if there is any question of their running short for purposes including selling gold to Bank of Portugal, I should have thought we should not allow the Bank of Canada to oblige the Bank of Portugal in this way.
>
> As I am not properly informed on this subject it may well be that such transactions are completely harmless....(25)

In July, Eccles got a reply from the ministry in London, a reply that reiterated the facts of the original deal struck between the British and the Swiss:

> ...The Swiss refuse to give us Swiss francs against dollars which they could not use to pay to Portugal .... since they have to meet a deficit with Portugal. It is essential for us to obtain the Swiss francs we need and we reached a provisional arrangement to obtain them against gold in Canada which would be available to be earmarked in Canada for Portugal. As you rightly say, this prevents the Swiss from having to deplete their gold reserves in order to pay Portugal, and naturally we should like Switzerland to have as little gold as possible for fear Germany may get hold of it. However, the Swiss have told us that they do not supply the Germans with gold and we have no reason to believe that up to the present they have done so.(26)

This interpretation apparently retained its currency in London's corridors of wartime economic power. In August 1944, a memorandum prepared by the Overseas and Foreign Office -- a memorandum that drew on intercepted communications between Lisbon and Berne -- again described the origin of the gold the Portuguese had delivered to the BNS in 1942:

> ...The Ports obtained gold in Canada from the Swiss, by means of an exchange of Account A * gold against gold in Ottawa.(27)*(* Thought to be without German taint.)*

Central to the British reading of the Banco de Portugal's financial dealings with the Banque Nationale Suisse in the mid-war years was the role of its various accounts in Berne. Of the four Portuguese accounts maintained at the BNS -- A, B, C, and D -- British intelligence usually identified account A as a clean account. accounts B and C, however, were usually described as containing "gold with a German taint."(28)

There was persistent commentary in the communications between British diplomats in Lisbon and London about the use of these accounts as conduits for tainted gold moving from the BNS to the Banco de Portugal deposit in Switzerland and thence being physically shipped to Lisbon. A memorandum of September 1944 entitled "Gold Imports into Portugal" and signed by Sir Stanley Wyatt, British ambassador to Lisbon, for instance, suggested that the Banco de Portugal held gold -- about 11,000 kilos acquired in 1942 from the BNS -- bearing Soviet markings and that "the greater part of this gold originated from occupied countries."(29) Throughout the mid-war, the Allies made periodic attempts to calculate the extent and origin of the growing Portuguese holdings of gold. One estimate in September 1944 furnished a summary that suggested that Portugal had acquired 363.5 thousand kilos of gold and that accounts B and C were the principal avenues along which the Banco de Portugal had moved gold through Switzerland. The two largest streams of gold reaching Portugal, besides gold purchased for dollars in the United States, were described as "purchased from B.N.S. against SFcs (? from Reichsbank) and consigned from deposit 'B' with B.N.S." and as being "purchased from Reichsbank and consigned from deposit 'C' with B.N.S." Gold in account A was described as "purchased from B.N.S. against escudos and consigned from deposit 'A' with B.N.S."(30)

Historical data released by the Banco de Portugal in April 1997 confirm these patterns. The largest European acquisitions of gold by the Banco de Portugal were made through its accounts B and C at the BNS, the latter account in particular serving as the channel for gold acquired from the Reichsbank. Gold movement figures for 1942 show two entries representing the transfers involving Canada: one for 2,018 kilos of gold in account A and a second for 2,000 kilos of gold in account B. This obviously partially contradicts the opinion in the minds of British commentators that *all* the 1942 transfer was drawn out of account A. Nonetheless, *none* of the transactions appears to have been drawn from the principal Reichsbank account, C.(31) The commentary accompanying these statistics -- commentary ultimately presented to the United States House of Representatives Committee on Banking and Financial Services in June 1997 -- stressed the fact that gold accumulation was Portugal's preferred strategy of shoring up the external value of Portugal's currency, a policy applied to "any trade partner of the country."(32) It is perhaps worth noting that, when the war in Europe drew to a close in mid-1945, Bank of Canada Governor Graham Towers drew up a report on the financial condition of Europe. "Portugal," he reported, "has done well out of the war, accumulating $75 millions and large amounts of gold and dollars."(33)

Did Canada unwittingly facilitate the laundering of tainted German gold in the spring of 1942? The swap of Swiss gold earmarked in Ottawa for Portuguese gold deposited in Switzerland was first and foremost driven by Swiss monetary needs, *not* Portuguese needs. The imperative of bolstering the domestic requirements of the Banque Nationale Suisse in its fight against inflation was the paramount motive in the whole transaction. This need was sufficiently powerful to

persuade the Swiss to pay a stiff transfer commission to prod the Banco de Portugal into accepting gold on the other side of the Atlantic that was blocked until the end of the war. The commission was daunting enough to dissuade the BNS from pursuing the strategy of further using its clean gold in Canada as a bargaining chip in its European operations.

It is, however, impossible to say with absolute surety that the four tons of gold that the Banque Nationale Suisse received in Europe from the Banco de Portugal in return for its Ottawa gold was also untainted. Contemporary intelligence reports reflected the belief that the gold was "without German taint." Similarly, the gold appeared to be drawn from accounts maintained by the Banco de Portugal that were not generally perceived as being the principal conduits for tainted Nazi gold on its journey from its looted origins to the mainstream of legitimate finance. If swapping gold in Switzerland for clean, if blocked, gold in Canada was an effective means of laundering gold, why did Portugal not employ the tactic again, especially in light of the handsome commission the Swiss were prepared to pay on the transaction? After all, Switzerland still had gold left in Ottawa after the first four tons had been transferred. But there is no record whatsoever of the Portuguese ever asking to duplicate the transaction. In fact, the Banco de Portugal spurned the BNS's offer of further sales in mid-1942. Other contemporary intelligence reports and a convincing burden of more recent research indicate that Portugal had more expedient ways of moving gold from Germany's borders through Switzerland to Portugal. There was little inclination or incentive to detour through distant Ottawa.

THE PORTUGESE-SWEDISH-SWISS GOLD SWAPS OF 1944-45

During 1942-43, growing recognition that gold looted by the Germans was making its way to the outside world through neutral countries began to be reflected in a tightening of Allied policy around the countries believed to be the middlemen in the trade. In January 1943, 17 nations signed the "Inter-Allied Declaration Against Acts of Dispossession." The signatories reserved the right to declare invalid any transfers of property taken out of countries occupied by the Axis when peace returned to Europe. The declaration did not specifically mention looted gold, but a subsequent February 1944 declaration by the United States emphatically stated that the Americans, who would plainly be the driving force of postwar economic activity, would not recognize title to any gold that had been moved by Germany onto world markets during the war. Britain and the Soviet Union quickly echoed this policy, thereby sending European powers that were alleged to be involved in the trade clear warning that they did so at their own financial peril. In the spring of 1944, the search for Nazi gold became active as the U.S. Treasury Department initiated its Safehaven program, which began to actively seek evidence of the dispersement of looted gold. Despite these early injunctions, the Banco de Portugal's gold reserves continued to rise steadily through the 1943-45 period.[24]

Paralleling its acquisition of gold, Portugal had been an active participant in European wartime trade, capitalizing on its strength in such strategic minerals as tungsten -- used to harden steel -- while at the same time maintaining its more normal commercial relations with European trading partners. These included trade with its oldest trading partner, Britain, which since signing a 1940 agreement between their two central banks had allowed its trade with Portugal to be conducted in sterling. The settling of Portugal's trade accounts with other countries was, however, less straightforward and more problematic. Once the war had made the reichmark an unconvertible currency, Portuguese

trade with the Axis was generally financed by German payment in gold, gold usually transferred through accounts at the BNS in Switzerland. In 1941, the Banco de Portugal and the BNS signed a central bank agreement that regulated payment between the two countries. At the same time, Portugal tried to maintain its commerce with other European trading partners such as Sweden by using gold to secure hard currency to satisfy its accounts with these countries.

Throughout 1944, the turning tide of the war began to have a constricting effect on the financing of inter-European commerce. Looted gold had now acquired a second taint; few would accept it as a form of payment for fear that its true origins might be exposed with the peace, opening the way to Allied confiscation. At the same time, countries with large holdings of such gold grew anxious to rid themselves of the liability they represented. "Source states," a British secret report copied to the Bank of England warned in August 1944, "that the Bank of Portugal is now endeavouring to liquidate the larger part of its gold holdings in Switzerland. These consist almost exclusively of German gold deposited by the Reichsbank. The Bank intends to utilize these deposits to cover imports from Switzerland or Sweden."[35] A month later there were even reports of German gold being transported by air via Spain to Portugal, where it was being smelted into Portuguese ingots and hoarded for "a postwar credit for the Germans."[36]

Amid these pressures and rumours, Canada again found a small role in the disposition of European gold. It began innocuously enough in mid-February 1944, when the Swedish ambassador to Canada paid a visit to the Bank of Canada and inquired into opening an account in Ottawa. The purpose of the account would be to allow the Sveriges Riksbank, Sweden's central bank, to buy newly minted Canadian gold and earmark it in Canada. This the Canadians were prepared to do at six cents below the going New York rate (a discount made possible by the saving of not shipping the gold to New York) as long as gold was available surplus to Canada's own needs. Early in March, the Riksbank exercised this option, buying 1,076 bars of Canadian gold for earmark and agreeing to the usual condition that it could physically export the gold only within the Western Hemisphere or transfer the gold on paper to central banks of Allied or neutral European powers.[37] The deputy minister of finance routinely approved the transaction. The Bank of Canada had another wartime earmark client. There is nothing in the correspondence covering the opening of this new account to suggest that there was an ulterior motive behind the Swedish initiative. Sweden appeared to be applying some of its U.S. dollar holdings to the acquisition of gold at a good price.

Events in Europe would soon create a new purpose for the account. By the summer of 1944, Portugal was experiencing real difficulty converting gold into the hard currencies that fuelled its trade with Switzerland and Sweden. The exchange rate in Lisbon on the Swiss franc and the Swedish krona climbed in relation to the Portuguese escudo. In early August, the Banco de Portugal instructed local banks not to sell francs or kronor except for the purpose of "conventional transactions." Under the agreement signed in 1941 between the Banco de Portugal and the BNS, the Portuguese had the right to sell gold to the Swiss in exchange for francs that would then be applied to financing Swiss-Portuguese trade. In August 1944, however, the Swiss learned that the Portuguese were in fact selling them gold for francs, but then using the francs to purchase Swedish kronor to finance their trade with Sweden. The Swiss complained and reminded the Portuguese that francs obtained for gold must be fed back into Swiss trade with Portugal. The Banco de Portugal

assured the Swiss that the gold sales were to cover commercial transactions with Sweden only. The BNS did allow one such gold-for-francs-for-kronor swap to take place, but then insisted that the Portuguese respect the 1941 agreement. In desperation, the Portuguese then suggested various schemes to the Swedes, all of which revolved around the Swedes buying some form of Portuguese gold in return for kronor or swapping gold in Stockholm for gold in Berne. The Swedes proved very reluctant to accept any form of Portuguese gold in Europe and in fact were even reluctant to acquire escudos. The Swedes may have sensed what Allied intercept had already revealed: the Portuguese were selling gold out of their B account -- gold with German taint.

Confronted with Swiss intransigence and Swedish hesitancy, the Portuguese then struck upon the idea of offering the Swedes gold -- gold that was undeniably clean -- in their Canadian earmark account in return for kronor in Stockholm. The Swedes replied cautiously, asking whether the Portuguese would promise to spend the kronor they received from the deal solely for trade with Sweden. On August 30, the Banco de Portugal, possibly responding to a Swedish request about the quality of the gold in Ottawa, asked the Bank of Canada to reconfirm that the 321 bars in its earmark were "good delivery New York." They were. With these assurances, the Swedes and the Portuguese struck a deal. On September 6, the Banco de Portugal instructed Ottawa to transfer "about 1000 kilos gold fine" -- 32,174 fine ounces -- into the Riksbank account in Ottawa. On October 2, another 500 kilos -- 16,108 fine ounces -- followed.[38] In its secret commentary on this swap, the Overseas and Foreign Office attributed Portugal's desperate need for kronor as the principal motive behind the deal. The second, smaller swap in early October was prompted by the exhaustion of the kronor obtained in the first swap. On October 23, the British intercepted a telegram from Banco de Portugal to the Riksbank in which the Portuguese reported that their reserve of kronor was now healthier and that "they may possibly accumulate more kronor than they need." Would, therefore the Swedes be willing to resell the gold, or some part of it, they had acquired in Canada back to the Portuguese? The Banco de Portugal was willing to pay slightly more for the returned gold than they had received from the Swedes in August and October.[39] The Riksbank agreed as long as the kronor it received were derived from "normal commercial transactions." The Swedes agreed to honour this reswap arrangement for six months until April 26, 1945, at which time they would be "prepared to reconsider the matter."

On November 21, the new agreement was activated. A half ton of gold was returned to the Banco de Portugal's account. On November 24, another half ton followed. Another half ton was returned on January 5, 1945, in effect cancelling the original 1944 Portuguese-Swedish swap. But then the tide turned again, and in six separate transfers between May 7 and September 13, 1945, the Portuguese transferred gold totalling two and a half tons back to the Swedes in Ottawa.[40] Coincidentally, the Riksbank bought more gold -- 1,230 bars -- directly from the mint in Ottawa through the minister of finance.

This tango of Portuguese-Swedish swaps was accompanied by one last Portuguese-Swiss swap. On September 19, the Banque Nationale Suisse instructed the Bank of Canada to transfer two tons -- 64,386 fine ounces -- of gold to the Banco de Portugal's earmark account in Ottawa.[41] Unlike the 1942 transactions, the BNS paid a much lower commission on this transfer, only 3/8%.[42] Once again, the Portuguese drew their gold from their A account at the BNS, the account

generally believed to be without German taint. Statistics supplied by the Banco de Portugal show a withdrawal of 2,001 kilograms from account A in 1944.[43] There is no definitive explanation for this Portuguese-Swiss swap. Coming a week after the initial Portuguese swap with Sweden, it may have been occasioned by a Portuguese desire to replenish its Ottawa stock of clean gold in case its need of kronor necessitated further Swedish swaps, swaps that would take it beyond the two tons it by then had left in Ottawa. Hence Portugal's willingness to accept a much lower commission. Switzerland may well have been ready to facilitate this swap because it promised to ease Portugal's liquidity problems, thereby easing Switzerland's own strained exchange situation with Portugal. This is, however, only speculation. The BNS's own recent interpretation of the swap suggests that it "seems to have been motivated by a desire to avoid the cost of transporting gold from Bern to Portugal."[44]

Thus ended Ottawa's role in the wartime swapping of gold between the accounts of the central banks of neutral Europe at the Bank of Canada. The flurry of late-war swaps between Portugal, Sweden and Switzerland passed with absolutely no undue concern in the Bank of Canada. These swaps followed a pattern that was by 1944 familiar to the Bank's officials and to the deputy minister of finance. There is no written record of any sense of anxiety or alarm over the requests for transfer received from European central banks. Similarly, the record of these events supplied to us by the European banks involved -- a record admittedly viewed at arm's length -- gives every indication that the gold swaps that took place through the auspices of the Bank of Canada from 1942 to 1945 were driven by liquidity concerns, not by a desire to launder dirty gold into clean gold. There were too many other ways to pass off bad gold under the cover of war in Europe for the route through Ottawa to ever have had much appeal as a site for laundering gold. Documents can, however, lie. And it is in the nature of human deviousness that some acts are never captured for posterity in the first place. We can never therefore be absolutely sure that Ottawa did not unwittingly aid the designs of gold launderers, but the burden of evidence would suggest otherwise.

On July 11, 1945, the Banque Nationale Suisse cabled Ottawa to inquire whether the restrictions that had since 1942 conditioned their ability to dispose of their Canadian gold were finally in abeyance. Peace, they suggested, meant that "these restrictions have lost their importance." Ottawa concurred, but reminded the BNS that an export licence was still required and that until peace returned in the Pacific some countries were still considered "enemy." No dramatic withdrawals of gold followed. The Swedes, Portuguese and Swiss all kept their Ottawa accounts after the peace.

In 1955, a ripple of horror spread through the Bank of Canada when it was discovered that deep in its vault was a small holding of what were described as "Prussian gold bars." There was concern that the 597 bars might be "tainted" and had somehow slipped into the Bank's gold reserves as a result of wartime acquisition. A quick check revealed that they had in fact come to the Bank as part of a shipment from the Bank of England and that they were tainted only in that they were not "good delivery London" (i.e., they had been manufactured by a prewar German refiner, whose products were, in the 1950s, no longer acceptable in international gold markets). The "Prussian" bars were subsequently remelted and integrated into the supply of acceptable gold.[45] In a real way, this was probably as close as the Bank of Canada ever got to actual tainted gold crossing the portal of its vault.

1. Gill Bennett, Head of Historians, Foreign and Commonwealth Office, London, to Duncan McDowall, September 8, 1997. Copy available upon request.

2. Neville Wylie, "The Swiss Franc and British Policy towards Switzerland, 1939-1945," no date, p.1. A copy of this paper was kindly supplied by the Foreign and Commonwealth Office in London.

3. All statistics from the Swiss Federal Department of Foreign Affairs.

4. In these matters, Professor Wylie's paper, op.cit., is excellent.

5. Norman to Towers, March 8, 1942, BOC file A17-1.

6. File OV63/4, Bank of England Archives.

7. Translated from *Swiss Diplomatic Documents*, Vol.14 (1941-1943), Document #292, appendix II.

8. Minutes of the BNS Board of Directors, February 12, 1942.

9. Minutes of the Bank Committee, March 26/27, 1942, p.103, BNS Archive.

10. Norman to Towers, May 1, 1942, BOC file A17-1.

11. "Response to Professor McDowall's questionnaire on gold swaps carried out between the Swiss Nationale Bank and the Bank of Portugal," September 12, 1997 [translated from the original German]; microfilmed files OV63/3 (parts 1 & 2) and OV63/4, Bank of England Archives and Wylie, "The Swiss Franc..," op.cit.

12. All statistics from the Swiss Federal Department of Foreign Affairs.

13. Ibid.

14. Note of August 31, 1944, Bank of England file OV62/24.

15. "Estimated Gold Holdings of the Bank of Portugal at 30/6/44," ibid. and "Movimento do Ouro do Banco de Portugal no Estrangeiro -- ouro fino (kgs.), 1937-1946" and bar graph "Banque Nationale Suisse: Movimento do ouro de 1941 a 1946" for accounts A, B, C, and D, taken from *Ouro: 1937 a 1946*, Banco de Portugal, Lisbon, 1997. A September 1943 cable from the Ministry of Economic Warfare in London to the British Embassy in Lisbon provided a more definitive breakdown of the purposes of the Banco de Portugal accounts in Berne. Account A was intended for "gold sold to the Bank of Portugal by Swiss for escudos, without evidence of German interest." Account B was "for gold purchased by Banco de Portugal for Swiss francs." Account C was for "gold sales by Reichsbank to Banco de Portugal." See J.R. Culpin to S.D. Wyatt, September 29, 1943, Bank of England file OV62/23.

16. BNS to Bank of Canada, April 28, 1942, BOC file A17-1.

17. Towers to Norman, April 28, 1942, BOC file A17-1.

18. Norman to Towers, May 1, 1942, ibid. As has been pointed out earlier in this report, this is the only instance in which Norman repeated a phrase for emphasis in a communication with Towers.

19. Bank of Canada to BNS, May 2, 1942, ibid.

20. Towers to various general managers, BOC file 135-15.

21. Bank of England to Bank of Canada, May 4, 1942, BOC file A31.

22. Overseas and Foreign Office, "Secret: Regarding Gold in Canada," November 13, 1942, Bank of England file OV63/3.

23. Minutes of the BNS Board of Directors, April 9, 1942, #251 and April 23, 1942, #279 and May 7, 1942, #350.

24. Ibid., meetings of June 11, 1942, #428, June 25, 1942, #470, September 17, 1942, #658 and November 5-6, 1942, #769.

25. DavidEccles, British Embassy, Lisbon, to Harry Lucas, Ministry of Economic Warfare, London, June 25, 1942, Bank of England file OV62/23 (part 2).

26. S.D. Waley to David Eccles, July, 1942, ibid.

27. Memorandum from Overseas and Foreign Office, August 31, 1944, Bank of England file OV62/24.

28. See, for instance, Note of August 31, 1944, Bank of England file OV62/24.

29. Secret - "Gold Imports into Portugal -- Measures Taken to Eliminate Evidence of Origin of Gold Bars," signed by Sir Stanley Wyatt, September 9, 1944, Bank of England file OV62/24.

30. "Estimated Gold Holdings of the Bank of Portugal at 30/6/44," Bank of England file OV62/24. There was much discussion about all such estimates and their accuracy. Each commentary reported different sources. The overall effect was, however, of large outflows of gold to Portugal from Switzerland.

31. Banco de Portugal, "Ouro 1937 a 1946," Lisbon, 1997. Tables: "Movimento do Ouro do Banco de Portugal no Estrangeiro," "Movimento do Ouro do B.Portugal no B. Nationale Suisse" and "Ouro em Barra: Depositado no Banque Nationale Suisse - C/ 'A', C/ 'B' and C/ 'C'."

32. Testimony of Prof. Joaquim Da Costa Leite before the House of Representatives Committee on Banking and Financial Services, June 25, 1997, appended to *Ouro: 1937 a 1946*.

33. Memorandum #487, Towers Papers, Bank of Canada Archives.

34. Banco do Portugal, "Balanco do Banco de Portugal em 31 de Dezembro: Disponibilidades en Ouro e em Moeda Estrangeira," in *Ouro 1937-46*, Lisbon, 1997.

35. Secret - "Gold Imports into Portugal," August 17, 1944, Bank of England file OV62/24.

36. Ibid., September 2, 1944.

37. Memo of February, 14, 1944 and Bank of Canada to Sveriges Riksbank, March 9, 1944, BOC file A16-3.

38. All transaction details in BOC files A31 and A16-3 and Allied commentary on this deal in Overseas and Foreign Office Memo of August 31, 1944 and Overseas and Foreign Office Memo "Swedish Kronor Transactions of the Bank of Portugal," November 22, 1944, Bank of England file OV62/24.

39. "Swedish Kronor Transactions...," op.cit.

40. All transactions recorded in BOC file A16-3.

41. Bank of Canada to Bank of England, September 19, 1944, BOC file 515-17-5.

42. Minutes of the BNS Board of Directors, September 22, 1944, #985.

43. Banco de Portugal, "Movimento do Ouro do Banco de Portugal no Estrangeiro, 1937-46."

44. "Response to Professor McDowall...," September 12, 1997, op.cit.

45. Details in BOC files A1-5A, A19-18, 1057-1 and 135C. As this report was close to printing, a 1956 memorandum of the Federal Reserve Bank of New York referring to these same "Prussian gold bars" was located in the U.S. archives. The specific transactions and bar numbers are being verified by the Bank, but it appears that the U.S. document does not contain any new evidence that "tainted" gold was handled by the Bank of Canada.

This page is part of a report prepared for the Bank of Canada
by Professor Duncan McDowell of Carleton University
on the Bank of Canada's handling of foreign gold during World War II.
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Due Diligence
A Report on the Bank of Canada's
Handling of Foreign Gold During World War II

Commentary

Like gold, public policy can be assayed -- its purity tested and reported. This study has focused almost exclusively on the origin and disposition of six tons of gold in the vault of the Bank of Canada, gold that began the war as British property and ended the war in the accounts of the Portuguese and Swedish central banks. By the standards of Allied and Axis gold movements in World War II, this small cache of gold was relatively insignificant. The moral dimensions of this small flow of gold through Canada's central bank are, nonetheless, today possibly as momentous as the largest wartime transfers of Reichsbank gold across the Swiss border.

The issue of Nazi gold in Canada has never been one of absolute taint -- the physical acceptance of looted gold and its subsequent legitimization. Nor have the recent controversies over dormant bank accounts and heirless assets touched Canada. Instead, the controversy over Canada's part in wartime gold movements has been defined in legalistic and bureaucratic terms -- a questioning of the procedures by which ownership of gold was transferred on paper by one central bank to another. It involves an evaluation of the diligence that Canadian officials in Ottawa applied to overseeing the transfer of earmarked gold in Canada, in exchange for unknown commercial and financial transactions in Europe. At root, it is a matter of the morality and competence that Canada's wartime bureaucrats brought to one small aspect of their work. That competence must be weighed in terms of both the overall wartime context in which the transfers took place and the actual mechanics of the transfers.

SIX TONS OF GOLD IN A BROADER CONTEXT

Overall Gold Movements in Wartime Ottawa

Some may fault this study for its excessive myopia -- the dogged pursuit of six tons of earmarked gold through the course of the war. In war, one could point out, more than in most human endeavours, decisions are made in light of the broad context -- the quest for survival and ultimate victory. This study has instead begun with the premise that in war the means, however seemingly insignificant, should measure up to the moral end of war. This said, there is every reason to set the gold transfers of 1942-45 in a broader context.

In this respect, it is crucial to place the gold trades of 1942-45 in the context of the Bank of Canada's overall activity as an earmarker of foreign gold during the war. The six tons of gold

-- 480 bars -- that were traded from Switzerland to Portugal in 1942 and 1944, and then partially on to Sweden later, represent the smallest fraction of the foreign gold that the Bank of Canada handled during the war. Even if one broadens the focus of this study to embrace the 56 tons -- 4,506 bars -- of English gold transferred to Switzerland in 1942-43, the ratio remains very small. The careful reconstruction of the Bank of Canada's gold ledgers over the years 1935-56 that has accompanied this research has revealed that the Bank of Canada handled approximately *565,000 bar transactions*. A "bar transaction" measures the arrival and eventual shipping out of every bar. Defined more narrowly, between 1938, when the prewar scramble to earmark foreign gold in Ottawa began, and the end of the war in 1945 the Bank of Canada received 186,332 bars of gold, plus another 8,291,032 ounces of gold coins. Another perspective on the 1942-45 transfers is offered by the fact that, over the years 1939 to the early 1950s when the last vestiges of wartime earmarking were wound up, the Bank of Canada carried 39 earmark accounts, only four of which -- England, Switzerland, Portugal and Sweden -- were involved in the trades examined here. It is worth noting that only one further question about gold in Ottawa has emerged from the intensive scouring of wartime records that has taken place in Washington and Europe over the last year and a half.[1] Nor has the intensive search of the Bank of Canada archives since August 1997 revealed any further hint of improper transactions. Thus, the gold swaps of 1942-45 constitute only a tiny fraction of the Bank of Canada's overall gold transactions in World War II.

Gold Swaps at the High Noon of War

The 1942 Anglo-Swiss agreement to swap gold for francs and the subsequent transfer of Swiss gold to Portugal came at the darkest hour of the war. As the preeminent historian of Canada's war effort, J.L. Granatstein, has noted, "...A pall of frustration hung heavily over Canada in 1941. The war was going from bad to worse."[2] The secret, coded cables that arrived from the Bank of England initiating the swap in March 1942 arrived just months after Pearl Harbour, an event that shunted the Allies into a two-theatre war. On the home front, the spring of 1942 saw Canada engaged in a national plebiscite campaign over the thorniest of Canadian issues -- whether Canadian manpower should be conscripted to fight the Axis. There was a mood of political rancour and anxiety throughout the land. All this came after a year of desperate effort to gear up the Canadian economy for the immense challenge of beating the Axis on the economic front. While plans had been laid, there was still no assurance that Canada's economy could meet the challenge of total war. In the words of historian C.P. Stacey, "The harvest then sown [in 1940] began to be reaped on a large scale only in 1942....By the end of 1943, the Canadian effort, built up gradually through four years, was almost at its peak."[3]

Through these days of national strain, there was still no sense that victory was assured. Every day brought decisions of momentous import. There were decisions about war production, manpower allocation, rationing and price controls. The question of paying for the war was ever present. These decisions were often made by the same senior politicians and bureaucrats whose names appeared on the memoranda and cables that permitted gold to be earmarked in Canada -- Bank of Canada Governor Graham Towers, Finance Minister J.L. Ilsley and Deputy Minister of Finance W.C. Clark. Every day in 1941-42, as Granatstein has pointed out, these so-called mandarins "came to solutions to the fiscal problems that threatened to destroy the Canadian war effort."[4] The Bank of Canada became the

focal point of much of the nation's monetary war effort -- the Foreign Exchange Control Board was administered under its umbrella of jurisdiction, the national War Bond drives were coordinated by its officials and Canada's public debt, including Canada's famous billion-dollar gift to Britain in early 1942, were orchestrated by the Bank of Canada. On occasion, Governor Towers abandoned his usually dry manner of communication to reveal the pressure under which he found himself as wartime decisions crowded in upon him. "The administrative difficulties of the task which is being undertaken," he confided to Bank of England Governor Montagu Norman after wage and price controls were introduced in Canada, "are, of course, terrific. I hope that a good job will be done -- or perhaps it would be better to say that a good job must be done."(5)

The Bank of England's request that the Bank of Canada facilitate a swap of its gold for Swiss francs thus arrived on the desk of a man besieged with worry. His counterpart in the Department of Finance, Deputy Minister W.C. Clark -- whose assurance of the granting of an export licence was necessary before a foreign client would earmark gold in Ottawa -- was similarly bowed under the burden of wartime decision-making. How diligent therefore were they in the face of yet another demand on their authority? Or did the pressures of war allow a series of gold transfers of questionable integrity to slip across the desks of Ottawa's fiscal and monetary mandarins without the exercise of due diligence? What conditioned their response to the transfer requests from England, Switzerland, Portugal and Sweden? Even before the war began, one factor clearly preconditioned Ottawa's response to England's needs in 1942.

Obliging the Motherland:
Heeding Montagu Norman's Call

Since its inception in 1935, the Bank of Canada had found itself in a filial relationship with the Bank of England. Not only was the Bank of England old, experienced and at the crossroads of global finance, but it was the central bank of the senior member of the new-born Commonwealth. "Not a day passes without my thinking of some question which I should like to ask you," the deputy governor of the Bank of Canada wrote to a confrere at the Bank of England in 1935. "I must make a list of them and get your replies in a year or so when I next visit what is always referred to here as 'the Old Country'."(6) From the outset, relations between the world's newest central bank and its most seasoned practitioner were trusting, cordial and candid. Learning the ropes of central banking, one Canadian confided to London in 1936, was easier if "one has a friend from whom advice can be sought unofficially."(7) The principal link in this bond was the friendship of Montagu Norman and Graham Towers. While Towers was always his own man, intellectually active and innovative, he was at the same time constantly reliant on his friend "Monty" in London. The opening of the Bank of England's earmark account in Ottawa in 1936 and the massive prewar transfers of gold across the Atlantic in 1938 and 1939 attested to the workability of this intimacy.

The advent of war drew the two banks closer together. When England was at war, so too was Canada. When England called, the inclination of the Bank of Canada was to heed. England's gold was welcomed into the Canadian central bank's vaults. Its senior officials were accommodated in the grim days of 1940, and there were even tentative plans to establish a "shadow" Bank of England in Ottawa if Hitler's army made it across the Channel. Not everybody in Ottawa shared Towers' instinctive trust of his British counterpart. Prime Minister Mackenzie King detected a colonialism in the

relationship, a closeness that he believed endangered the Canadian autonomy he had long sought to build up at England's expense. "It does seem to me," he wrote in his famous diary in late 1941, "particularly in matters that come from the Bank of England...that too much of our policy is being dictated purely in British interests and not sufficiently in our own."(8) King's principal foreign affairs adviser, O.D. Skelton, shared the prime minister's autonomist instincts. Together they had battled Towers in 1940 over the issue of whether France's earmarked gold in Canada should be applied to Allied needs or put under the custodian of enemy property. Towers had written in his own diary that Skelton had taken a "pretty inimical view" to obliging the Bank of England's request that French gold be pressed into the cause of war.(9)

In the end, the prime minister prevailed, illustrating that there were checks and balances on Canada's central bank relationship with England. Canada would not follow blindly if its own, in this case political, needs were put at risk. The governor of the Bank of Canada nonetheless remained attuned to London's wartime needs. Thus, when London asked Ottawa to assist it in operating the foreign-owned gold arrangement in Ottawa in September 1940, the Bank of Canada could see "no particular difficulty about the arrangement proposed." Similarly, when Montagu Norman's cable arrived in March 1942, outlining Britain's liquidity crisis with Switzerland, it was not surprising that Towers cabled back almost immediately that his Bank would facilitate the plan.

Cautious Policy from Careful Mandarins

A preconditioned inclination to respond positively to the Bank of England's wishes did not, however, mean that Ottawa proceeded without careful consideration of its course of action. From the outset, Towers and his counterparts could see risk in the British proposal. It was not the risk that the Anglo-Swiss swap agreement might open the door to the laundering of looted gold by a neutral power on the borders of the Axis. Instead, the anxiety from the outset was centred on Ottawa, *not* Europe. Switzerland might obtain control of clean gold -- ultimately 56 tons of it -- and might therefore be put in a position to move that gold across the Atlantic to where it might somehow find its way into the service of the Axis. When the Swiss inquired whether the gold they would receive in Ottawa would be at their "free disposal" to be sold, transported or exported, London and Ottawa quickly formed a defensive strategy to contain the risk: earmarked gold held in Ottawa might be exported to other central banks in the Western Hemisphere or transferred on paper to these same central banks or those of European neutral powers, namely Portugal, Sweden and Spain. It was not perfect -- the gold might physically be shipped to Argentina -- but in the face of Britain's wartime needs, it was a suitably pragmatic response. As Montagu Norman noted to Towers, Britain's "direct war purposes must override these objections." Ottawa concurred. Any problem with the policy would be deferred "unless and until it is raised by one of the European neutrals."

Ottawa hardly had an alternative to this pragmatism. To have denied the Bank of England's request would have severely strained, if not irreparably damaged, the Bank of Canada's relationship with the senior bank in London. Such a denial would also have run completely against the grain of Canada's commitment to the Allied cause. It would also have soured England's chances of successfully resolving its liquidity problems with Switzerland and might possibly have shunted the Swiss further in the direction of the Axis. It bears emphasis that when Ottawa and London failed to see

eye-to-eye in 1940 over the disposition of the French earmarked gold in Ottawa, matters had immediately escalated to the prime ministerial level of discussion. Thus, Ottawa's central bankers and finance department mandarins devised a policy that shrewdly reflected the often divergent exigencies of war. As Deputy Minister of Finance W.C. Clark noted in approving the conditions of the Swiss earmark, "...there is nothing we can do but to facilitate the transactions as outlined..htm" by the British.

There are no visible signs in the letters, cables and memoranda that convey any sense of undue concern over what was at stake in the bureaucratic handling of these gold transfers. There is, for instance, no marginalia conveying disquiet over what was being requested. Neither is there any indication of disagreement over principles or tactics. Historians often look for tip-off phrases that indicate deeper concerns below the surface of any correspondence -- for instance, mention of long telephone conversations, the sense of which need capturing on paper. None of this is evident here. Instead, Towers, Clark and those advising them quickly devised conditions that they knew contained possible loopholes, but in the light of wartime exigencies, were realistic and workable and allowed all parties to the transaction to consider that their ends had been met.

The men who took these decisions have come down in history as the "Ottawa men." They were perhaps quintessential Canadians: not given to flamboyance or hasty judgement, but brilliant gradualists capable of judging a policy initiative from all its perspectives, while never losing sight of the greater end. As J. L. Granatstein has argued in his book *The Ottawa Men*,(10) these men were the architects of Canada's response to the social and economic disaster of the Depression and the challenge of the war in its wake. They fashioned the welfare state and the mixed economy that supported it. Clark in Finance had been on the job since 1932, Towers since 1935. Clark's minister, J. L. Ilsley, across whose desk the gold transfer requests passed, has been described as possessing "...the sharpest mind...in the government." He "worried incessantly about everything, but he would accept no advice from his deputy minister, Clifford Clark, that he did not understand well enough to put before the Cabinet."(11)

There was a close parallel between the historians' esteem for these wartime mandarins and opinions spontaneously volunteered in the interviews conducted during this research. Louis Rasminsky, a young economist trained at the London School of Economics who had joined the Foreign Exchange Control Board at the Bank of Canada in 1940, remembered Towers as "one of the ablest people [he] ever had contact with...very thoughtful and very rigorous in his thinking." The bank governor and the deputy minister of finance worked on "intimate terms as a team." Reflecting on the mid-war gold transactions, Rasminsky said that he could not "imagine Towers and Clark would have agreed to a transaction without making themselves aware of the risks."(12)

Rasminsky himself had no recollection of any undue concern over these same transactions, nor could he recall any residual concern over or echo of them after the war. Rasminsky would eventually become governor of the Bank of Canada in 1961. The theme of bureaucratic rectitude surfaced elsewhere. Towers and Clark, said an economist who worked at the Bank of Canada in the 1950s, were "some of the cleverest men we have ever seen in Canada."(13)

There was, it must be admitted, a measure of moral leniency about the decisions surrounding the Ottawa gold transfers.

There is, for instance, little hard evidence to support Towers' claim to the Bank of Canada board of directors in June 1942 that the Anglo-Swiss swap was necessitated by humanitarian needs, although it is plausible that some of the francs bought with British gold in Ottawa were applied to the business of freeing prisoners of war. Nonetheless, in the remaining years of the war, the policy devised in 1942 to condition the movement of gold held by neutrals in Ottawa fulfilled its intent. No gold owned by Switzerland ever left Canada and found its way across the Atlantic, let alone into the service of the Axis. No gold was ever transferred to Argentina. And only twice did the Swiss ask to transfer earmarked gold to another European neutral. When Switzerland tested the conditions governing their earmark by asking in 1942 if Swiss commercial banks could open parallel earmark accounts in Ottawa, the answer was a quick and firm no. With characteristic Canadian caution and pragmatism, the Bank of Canada, backed by the Department of Finance, had exercised due diligence without jeopardizing Britain's financial imperatives in Europe or undermining overall Allied solidarity.

Thus, one can conclude that the Bank of Canada handled its end of the gold transfers of 1942-45 with admirable due diligence. Risks were identified and policies were devised to minimize their potential. What happened in Europe was beyond Ottawa's direct influence. But as British diplomatic documents originating in Portugal during these years reveal, the British were vigilant to the ultimate purpose of subsequent gold swaps between neutral powers in Europe. The burden of proof would suggest that the gold transferred between Switzerland, Portugal and Sweden in the period 1942-45 was not looted gold, but instead clean gold. There are flickers of contrary evidence, notably the possibility that some of the gold passed from Portugal to Switzerland in 1942 was drawn from a Portuguese account -- account B -- at the Banque Nationale Suisse reputed to contain tainted gold. This morally positive conclusion was not the product of Allied policy, for these transfers took place beyond the practical reach of the Allies. Instead, the dynamic was supplied by imperatives within the neutral powers themselves. Switzerland's appetite for clean gold to support its monetary operations and Portugal's need of hard currency to finance its trade with Switzerland and Sweden were the *key determinants* behind the European paper transfers of gold. By 1944, Allied injunctions against the trading of looted gold carried some weight in neutral Europe and probably coloured the nature of the 1944-45 swaps.

Earmarking Foreign Gold:
Canada's Unsung Wartime Victory

Amid all the intense investigation of these wartime gold swaps, the big picture perhaps slips out of focus. Between 1938 and 1945, the Bank of Canada received almost 83 million fine ounces of foreign gold for safekeeping. Almost all of this gold was from nations facing the deadliest threat to their existence in the twentieth century. Some were in fact under the heel of the Axis; others were locked in combat with the Reich. Gold in Ottawa was the ultimate insurance policy for these nations, the ultimate assurance that *if all* was lost in Europe, there would still be capital to continue the struggle beyond the homeland. For the Dutch, Norwegian, Polish and Belgian governments, an earmark account in Ottawa provided the wherewithal of survival and, with victory, the beginnings of reconstruction. For France, the outcome -- gold frozen under the custodian of enemy property -- was somewhat different, but the ultimate prospect of gold available for reconstruction was the same.

Despite its largely dormant nature, earmarked gold in Ottawa was on occasion pressed into a more active and morally

commendable wartime role. It was used in 1942 to ease Britain's chronic liquidity problems with Switzerland. Even earlier, earmarking had been employed to meet the needs of European refugees in their quest to find safe haven for their personal wealth in the face of the Nazi onslaught. For 155 sundry persons deposits, Ottawa offered a destination that instilled a sense of security and fairness in Europeans who no longer felt safe in their native Europe. Their holdings in Ottawa offered hope of postwar rehabilitation and, for the minority who secured release of their gold before the war ended, a chance to establish a new life while war raged in Europe.

For all this, the Bank of Canada charged nothing beyond minimal shipping charges. The earmarking of gold was hardly a glamorous aspect of war. It was a prosaic bureaucratic procedure, quietly and efficiently performed by one central banker on behalf of another. Yet, it was an important facet of the Allied financial strategy for the war. And Canada was the principal instrument of this policy in the Commonwealth. Particularly in the early years of the war when America remained neutral, gold in Ottawa provided the beleaguered Allies in Europe with a vital element of insurance. What is perhaps remarkable is that of the 2,586 tons of gold earmarked in Ottawa by foreign clients between 1938 and 1945, only six tons have ever been questioned in terms of their ultimate application.

Historians of Canadian foreign policy have often criticized the low morality of Canadian foreign policy in the 1930s -- a policy framed by a parochial pursuit of autonomy from the British and an easy adoption of appeasement. The war, they argue, nursed a new, more constructive role for Canada in the world. Canada was a "middle power" that had useful roles to play in the world. This "functionalism" would quickly manifest itself in such roles as peacekeeping and foreign aid in the postwar years. In this light, Canada's efficiency as a safe-keeper of Allied gold in times of trouble can perhaps be seen as a foreshadowing of this new functionalism, a constructive, independent response to international needs.

Canada and the Postwar Search for Looted Gold: Bringing Closure

It was perhaps because the Ottawa men felt that they had done such a competent job of earmarking gold through the war that they felt little inclination join in the Allied search for looted gold after the war. In February 1944, U.S. Treasury Secretary Henry Morgenthau issued a "Declaration on Gold Purchases" that stated that the United States would not recognize the transfer of title of gold believed to have been looted by the Axis. Within days the American ambassador in Ottawa began exerting pressure on the Canadian government to take parallel action. Governor Towers at the Bank of Canada was reluctant to act. "We have never had occasion to buy gold from any country which has not broken relations with the Axis," he wrote to Undersecretary of State Norman Robertson at External Affairs, "or from countries which have acquired gold from any country which has not broken relations with the Axis."(14) Opinion in Ottawa tended to the view that Canada had signed the January 1943 first Allied declaration on looted gold and that this would suffice. Towers at the Bank of Canada had, in the words of the Bank's secretary D.G. Marble, "never felt that there was any need for a declaration on the subject of looted gold. htm"(15) Officials at External Affairs concurred. Norman Robertson believed that "there would appear to be no urgent need for us to take the parallel action suggested by the United States."(16) The same opinion prevailed at the Department of Finance. A memorandum to a senior departmental official, R.B. Bryce,

noted that "...we have gone much further than merely protecting assets located or controlled in Canada or being disposed of here."(17) Thus, Ottawa's attitude to the issue of looted gold was that it was a European problem, to be solved by Europeans.

In the end, Canada did issue a declaration on looted gold early in 1945. This was done, as several internal memoranda made clear, as "a gesture of solidarity" with the other Allied powers, especially the Americans.(18) Canada's declaration on looted gold was, however, Canadianized to highlight its special role as an earmarker of European gold. "The Canadian Government has already taken measures," it read, "to protect the assets of the invaded countries located or controlled in Canada and to prevent the Axis from disposing in Canada of looted currencies securities and other assets, and has co-operated fully with the other Allies in all measures to prevent the disposal of looted assets on the world market."(19)

After the return of peace in 1945, Canada took an arm's-length attitude to the American, British and French campaign to identify and recover looted gold. While the Tripartite Commission on the Restitution of Monetary Gold was established in September 1946, Ottawa concentrated on tidying up the loose ends of its wartime activities in foreign gold. The Bank of Canada efficiently cleared the remaining sundry persons deposits, while the larger European earmark accounts were returned to a normal peacetime footing. When the Tripartite Commission made its first restitution of looted gold in 1947, the Department of External Affairs dutifully circulated the press release.(20) Ottawa saw itself as a spectator to these developments. In 1948, for instance, the "Big Three" struck a deal with Switzerland that in effect saw the Netherlands repatriate only part of their monetary gold that had found its way to Switzerland in the war, allowing the Swiss to retain a large portion of what was generally believed to be looted gold. When a Montreal *Gazette* clipping describing the deal was circulated around the Department of Finance, one official scribbled the following comment:

Could we poke our noses into this? As a creditor of the Netherlands we have a definite third party interest. I think we should lend the Netherlands every support -- the Swiss have done well enough out of the war without making this kind of profit.(21)

But Canadian involvement in the complex postwar negotiations over looted gold never went beyond this level of commentary. Neither did the various American, British and French investigations into looted gold ever turn in Ottawa's direction. And when the ardour of the "Big Three" for the hunt cooled in the early 1950s, Ottawa too lost its tenuous connection with the issue.

For the next half century, the question of looted gold lived in the shadows. But, as the summer of 1997 was to reveal, Canada had not escaped implication in the issue entirely. Somewhere in the thousands of files generated by the intense postwar Allied campaign to identify and recover Europe's looted gold lay an anonymous document -- "From a very Confidential Source" -- that alleged that the Bank of Canada had played a small part in the laundering of looted Axis gold. The weight of evidence belies this lone contention. This report has addressed the last vestige of Canada's handling of foreign gold in World War II and found that, given the context of the times and the burden of evidence, the Bank of Canada and other senior officials of Ottawa's wartime bureaucracy exercised due diligence in carrying out these difficult duties. In

doing so, they performed a useful, if generally unnoticed, financial service to the Allies and at the same time offered, for a small group of refugees fleeing persecution in Europe, a measure of humanitarian relief.

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1. See "European Perspective," p. 18, footnote 45.

2. J.L.Granatstein, *Canada's War: The Politics of the Mackenzie King Government* 1939-1945, Toronto, 1975, p.159.

3. C.P. Stacey, *Men, Arms and Government: The War Policies of Canada* 1939-1945, Ottawa, 1970, p.91.

4. Granatstein, op cit., p.160.

5. Towers to Norman, November 5, 1941, file GFT75-9, Towers Papers, Bank of Canada Archives.

6. J.A.C. Osborne to G.F. Bolton, March 19, 1935, Bank of England file C43/296.

7. S. Turk to G.F. Bolton, March 22, 1935, ibid.

8. W.L. Mackenzie King diary, December 18, 1941, National Archives of Canada.

9. Towers diary, September, 1940, GFT75-39, Towers Papers, Bank of Canada Archives.

10. J.L.Granatstein, *The Ottawa Men: The Civil Service Mandarins 1935-1957*, Toronto, 1982.

11. Granatstein, *Canada's War*, p.160.

12. Interview with Louis Rasminsky, September 3, 1997.

13. Interview with David McQueen, September 10, 1997.

14. Towers to Robertson, February 26, 1944, BOC file 135.

15. Marble to R.B. Bryce, July 6, 1944, BOC file 135.

16. Robertson to W.C. Clark, June 13, 1944, ibid.

17. A.N. McLeod to R.B. Bryce, May 30, 1944, Department of Finance Central Registry file IMAC 1015-000-001.

18. See, for instance, Memo by Louis Rasminsky to Towers, no date, BOC file 135 and Scott Macdonald, External Affairs, to W.C. Clark, February 29, 1944, Department of Finance Central Registry file IMAC 1015-000-001.

19. Department of the Secretary of State of Canada, "Declaration by Canada on Gold Looted by the Axis and Subsequently Acquired by Third Countries," January 24, 1945, copy in BOC file 135.

20. October 23, 1947, copy in BOC file 135.

21. Montreal *Gazette*, July 16, 1948. Comment by "D.H.F." R.B. Bryce commented on the same clipping that he thought that Canada did have a right, as a participant in the Inter-Allied Reparations Agency, to intervene.

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Due Diligence
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The Documents

It is appropriate that some commentary be provided on the nature of the wartime documents from which this report has drawn its conclusions. This report has all primary material (i.e., material from the hands of the participants in the actual events) footnoted so that readers may know its exact origins and thereby return to these same documents to draw their own conclusions. Some generic consideration of the overall breadth, completeness and candidness of these documents is also in order.

THE NATURE OF CENTRAL BANK DOCUMENTS

This report draws almost exclusively on central bankers' documents. Of all institutional records, banking records are perhaps the most predictably regular and complete. Their creation is driven by a series of regulatory, fiduciary and administrative obligations, all of which reflect a response to the systematized accountability that our society demands of its banking system. There is much evidence in this report of documents produced by *regulatory* obligation: the requirement, for instance, stipulated under the 1932 Gold Export Act that the Bank of Canada obtain an export licence every time an earmark client sought to remove gold from the Bank's vault and take it out of the country. The absence of correspondence to the Department of Finance requesting such a permission would constitute a breach of regulatory obligation.

Fiduciary obligation is similarly represented in the Bank's written dealings with its clients: the entitlement of any client to have a written confirmation of the disposition of the assets they have placed in the care of a bank. A good example of such an obligation in the context of this report would be the regular production of account statements that provided foreign central banks with precise month-end and year-end reckonings of their earmarked gold holdings in Ottawa. Within its own structure, the Bank of Canada responded to various *administrative* pressures by producing, as a matter of automatic procedure, internal documentation that supported its functions. For instance, this report has relied heavily upon documents generated by the chief of the Currency Division, the division of the Bank charged with overseeing the safekeeping of earmarked gold. Currency Division's reports on the arrival and departure of gold to and from these accounts therefore provided a meticulous record of foreign clients' dealings with the Bank.

Given these pressures, the nature of the Bank of Canada's historical activities is documented in a highly patterned and

predictable way. Any gap in or departure from procedure quickly becomes evident. Similarly, the client-driven nature of earmark banking tended to create neatly compartmentalized series of documents that permit the historian to compare the treatment of one account against the treatment apparent in another. The record of any one account may be similarly traced, thanks to bankers' ingrained habit of copying correspondence and memoranda pertaining to one account to other relevant file series. For instance, month-end reports on earmarked gold in a client's account can be found in the files of that particular client as well in files of the Currency Division of the Bank of Canada, which oversaw the safekeeping of that gold.

Bankers' documents are also generally terse and to the point in nature. Driven as they are by regulatory, fiduciary and administrative demands, they seldom deviate from their purpose: to report and record bank activity. By this measure, any concerns on the part of the banker over any irregularity in procedure, any dilemma of interpretation or any ethical anxiety tends to emerge in the form of a departure from the usual economical style of the record -- marginalia, additional paragraphs of explication, references to clarifying telephone calls, etc. Such departures from the norm are readily apparent. Similarly, one looks for out-of-the-ordinary background memoranda that help bank officials shape the decisions reflected in the documents (e.g., the exchange of memoranda between Bank of Canada Governor Graham Towers and foreign affairs adviser O.D. Skelton over the fate of French gold trapped in Canada in 1940).

Research for this report extended well beyond the bounds of the Bank of Canada's strongly patterned documentary history. The records of other government departments -- Finance and External Affairs, in particular -- that played a role in Canada's wartime financial policies were consulted with the full cooperation of the departments involved. Thus, the ripple effect of any earmarked gold transaction could be traced elsewhere in Ottawa's wartime bureaucracy. The Finance Department records could therefore be expected to yield evidence of consultations with the Bank of Canada over the export of earmark gold. Similarly, documents from the Department of External Affairs could be expected to yield some sense of where financial policy trespassed into the territory of diplomacy, as, for instance, was the case of the postwar disposition of Polish earmarked gold held in Ottawa. As with the Bank's own records, documentation from other departments could be scrutinized in other ways. Internal memoranda, marginalia or references to politicians might tip off the historian to anxieties bred in other government officials by Bank of Canada decisions. Similarly, the absence of such *ad hoc* commentary in these documents suggests that the Bank's decisions did not occasion undue concern.

THE BREADTH OF THIS DOCUMENTARY INVESTIGATION

With these observations on the *nature* of the documents consulted in mind, something should be said of the *breadth* of the investigation. Shortly after learning of the World Jewish Congress's discovery of documents connecting Canada to wartime gold movements between the Allies and European neutrals, the Bank of Canada launched a vigorous and wide-ranging review of its records to identify all material relating to its wartime gold operations. An *ad hoc* task force of Bank officers was created to compile as thorough a catalogue of documents as possible in preparation for their review by an independent historian and eventually for other researchers and the general public. At the heart of this effort was the Bank's own archival and records-management staff.

There is ample evidence that the Bank of Canada has long made a conscious effort to maintain a documentary record of its wartime activities. As early as late 1943, the Bank's assistant deputy governor and its deputy secretary drew up a set of criteria for deciding which records of wartime activities would be retained. Records of "a purely routine nature" were to be kept for two years. At the other end of the spectrum were, "our most important files and those relating to transactions and business in connection with the war. For instance files on gold movements, conditions of accounts and various arrangements with Banks and the Dominion Government War Finance, Cash Reserves, taxation, Safe and Vaults, etc." were to be retained "indefinitely." Such files, it was noted, should be "examined again after the war is over" and a "permanent record is to be kept of all material destroyed...htm"(1) Following this initial commitment to records retention, there are sporadic indications of the Bank's determination to retain its records in a systematic fashion. For instance, this handwritten annotation was found on the cover of the Banque Nationale Suisse gold earmark account file: "It was suggested this file be destroyed to 1944 but Mr. St.A. wouldn't touch it. B.Le.M. March 12/49[47?]"(2) It should also be noted that every working file in the Bank had the following injunction stamped on its front cover: "Officers are requested not to remove letters from the files."

With these initial hints at the comprehensiveness of the records available, a search of the Bank of Canada documents pertinent to this report was launched. The search can only be described as painstakingly thorough. Every gold-related file was examined, catalogued and entered in a finding aid. Every document was examined by myself and/or my research assistant, Matthew Bellamy. Many of the files consulted in fact contained no material of any relation to the gold transactions in question in this report. The complete finding aid of these documents is being made available upon request to the general public by the Bank of Canada. The finding aid will reveal that a virtually complete record of the Bank's earmarked gold transactions, organized on a client-by-client basis, has survived intact to support this investigation. There is absolutely no evidence of document tampering. Given the nature of banking documents (as described earlier in this section), removed material would be glaringly evident.

There is, however, *one crucial gap or departure in record-keeping procedure* in the documents underlying this report. Clearly one of the central hinges of the Bank of Canada's wartime earmark operations was its relationship with the Bank of England. This relationship left a documentary trail in many files. Perhaps the most important of these was the "arrangements" file (file A18-17 - Arrangements) for the Bank of England's earmark account in Ottawa. It stretches back to the opening of the account in 1936 and carries the relationship through the prewar tensions and into the birth of wartime earmarking. And then the file suddenly stops in February 1941 and does not restart until June 1945. Thus the crucial events of the 1942-44 period -- England's negotiations with the Swiss, the francs-for-gold swap, the subsequent Portuguese and Swedish gold trades -- are not wholly chronicled from the perspective of the Bank of England. There is no official record of the sanctioned destruction of this file. It should be noted that one is able to piece together much of the Bank of England's relation with Ottawa in these mid-war years from copies of the correspondence in other Bank of Canada files (e.g., the Banque Nationale Suisse arrangements file).

There are several suggestions of where the missing correspondence has gone. Given the magnitude of the

events, this correspondence probably filled one, possible two full files. It has been speculated that the file(s), because of its special ongoing sensitivity in the war, was kept in the governor's office or the Bank secretary's office, where it could be accessed easily and was never ultimately returned to its rightful place in the main file. There were occasional references in other files to a "secret authorization file" that was kept in the Bank secretary's safe. Possibly the file was kept there and never returned to its rightful parent file. It is also possible that correspondence for the Bank of England arrangements file was in fact filed in the Bank of England routine correspondence file, because most of the mid-war decisions concerning the account were of a routine nature (e.g., transfers to the Federal Reserve Bank of New York).

There is no definitive answer to the problem of the missing section of file A18-17. The saving grace, however, is that the significant transactions reached between the Bank of Canada and the Bank of England in these years were copied to other Bank of Canada files and quite frequently to the Department of Finance files and are therefore traceable. For instance, the Anglo-Swiss gold swap of early 1942 is completely chronicled in the Banque Nationale Suisse account file at the Bank of Canada. Secondary corroboration of these transactions was also found in the Bank of England files made available to us by the bank in London. It seems very unlikely that these traces of such crucial transactions would have survived in companion document series had there been a concerted effort to erase any written record of the Bank of England's mid-war dealings with the Bank of Canada. The loss of part of file A18-17 therefore seems more accidental than deliberate.

ACCESS TO INFORMATION AND PRIVACY LEGISLATION IMPLICATIONS

It bears emphasis that in its initial commitment in July 1997, to investigate its role in wartime gold transfers, the Bank of Canada undertook to make available to "other researchers, interested groups and the general public" as complete a documentary record of these activities as possible. Such release will necessarily be subject to the Canadian federal government's Access to Information and Privacy Acts, that require obtaining the consent of non-Canadian central bank clients of the Bank of Canada. The principle of client confidentiality undeniably rests at the centre of all banking operations. As the recent controversies that have embroiled Switzerland's banking record in World War II have illustrated, the principle of client confidentiality can be used in a conscious way to serve ends other than its original intent. The rights of the Bank of Canada's clients cannot, however, be taken lightly, and to this end the Bank is engaged in a consultative effort to obtain the consent of parties involved in the events chronicled in this report to ensure as full a disclosure as possible of the documents used in this report.

THE SEARCH FOR DOCUMENTS BEYOND THE BANK OF CANADA

Parallel to the search undertaken at the Bank of Canada, other searches were launched at the Department of Finance and at the National Archives of Canada, where records of federal departments have been sent once they cease to have active relevance to government operations. On July 28, Finance Minister Paul Martin informed the Canadian Jewish Congress that he had instructed his department "to begin gathering all the files on wartime gold from the archives" of his department. The subsequent search was impressively thorough, but it did not unearth documents that departed from the pattern already evident at the Bank of Canada. Finance Department files that focused on earmarked gold were double-checked as part of this report's preparation. In 1963, certain Finance Department documents were ordered destroyed, but these would appear to have been correspondence of a routine nature. A finding aid to the Finance Department documents consulted has been added to the catalogue of Bank of Canada documents described above.

Searches of other collections of federal documents yielded similar results -- either a carbon copy of Bank of Canada records or no mention whatsoever of the gold transactions in question. Particular attention was paid to those collections that might have revealed consciousness of action on these issues in the highest echelons of Canada's wartime bureaucracy and its political masters. The War Cabinet Committee Minutes, the Mackenzie King diary and papers of individual ministers (e.g., Minister of Finance J.L. Ilsley) were surveyed and in all instances yielded no results. Back at the Bank of Canada, similar leads were pursued on the periphery of the main records. There were some tantalizing possibilities. Bank Governor Towers, for instance, kept a diary, but it stopped abruptly in 1940. None of these efforts yielded any significant insights.

ORAL EVIDENCE

Attempts to identify concerns about or consciousness of gold transfers in the senior echelons of government were matched by an attempt to contact Bank employees who might have witnessed these wartime events. At a half a century's distance, it seemed unlikely that senior Bank officials (i.e., those who had risen to positions of authority in the 1940s) would still be available for interviewing. Nonetheless, the Bank's pension lists were consulted and a list of retired employees, all now in their eighties, was drawn up. They were contacted and in some cases interviewed. Without exception, these interviews yielded no recollection of the gold swaps in contention, nor was there any memory of postwar gossip, folklore or inquiry into these events. The only gold memory of the war that most retained was the sudden and immense influx of earmarked gold coming to the Bank in the late 1930s and early war years from Europe. The interviews were, however, useful in providing a vivid sense of the corporate culture of the Bank during the war and in shedding light on the procedures by which gold was stored, recorded and moved in the vaults.

This attempt to collect oral evidence prompted thought about other ways in which wartime Bank officials might have obtained or transmitted information or opinion during the course of the war. The evidence used in this report is almost exclusively written. The written record is undoubtedly a candid one. All overseas communication by cable was coded and therefore secure (e.g., instructions for the transfer of gold from one earmark account to another were encoded).

Here the exception proves the rule: the Banco de Portugal did not have a secure, coded cable link with Ottawa, so all of its communications with Canada were transmitted through the Bank of England. Were there other methods of communication that are not reflected in the written record? Several such media suggest themselves.

Prewar records suggest that the transatlantic telephone was occasionally employed to trade opinion between London and Ottawa. Conclusions drawn from these contacts usually appeared in written form after the fact, either as a memorandum dictated to capture the sense and outcomes of the conversation or in allusions to such discussions in subsequent written communication. War seemed to cramp this style of communication, possibly because telephone communication was considered insecure. There are few indications of telephone conversations during the war; coded cables seem to carry the crucial decisions. There seems to be more likelihood that personal contact between central bank officials, especially those from the Bank of England, served to inform the decisions taken on earmarked gold policy. In the dark days of 1940, Ottawa received long visits from British officials such as Sir Frederick Phillips of the Treasury and Bank of England directors like Sir Otto Niemeyer. There are written records of these contacts (e.g., discussions between Phillips, Prime Minister King and Graham Towers over the fate of French gold and currency in Ottawa). Similarly, Canadians went to London. There are, for instance, terse reports of Graham Towers' visits to London and the Bank of England (e.g., the minutes of the Bank of Canada board of directors on February 9, 1940, record that Towers had recently been to London "at the request of the Government" during which visit "negotiations with the British authorities respecting financial arrangements with Canada had been satisfactorily concluded."). These references suggest that the written record is not entirely hermetic and that other exchanges may have lain behind the wartime decisions and that these may have escaped posterity's reach. There is, however, evidence that a strong bureaucratic instinct to commit important oral communication to paper persisted throughout the war.

RECONSTRUCTING THE BANK OF CANADA'S GOLD LEDGERS, 1935-56

All the foregoing efforts to reconstruct a narrative of the decisions surrounding the gold accounts of the Bank of Canada have been accompanied by an effort to reconstruct the actual physical movement of gold into and out of the Bank of Canada in the years 1935-56. Every gold bar stored in the Bank of Canada, whether owned by the Bank itself or earmarked for an outside client of the Bank, was meticulously recorded in the Bank's gold records. Thus, every bar arriving at the Bank was duly recorded, and every subsequent movement of that bar -- either its actual physical departure from the Bank or its book transfer from the account of one client to that of another -- could be tracked in the original records as well as in their companion transaction files (e.g., paper notification of gold movements to clients).

Part of the Bank of Canada's decision in July 1997 to thoroughly investigate its role in wartime gold transactions was the determination to reconstruct its gold records on an aggregated basis that would allow it to show overall gold flows in and out of the Bank, while at the same time allowing it to trace any individual bar's history with the Bank. This was a massive undertaking. To meet this challenge the Bank assembled a team of seconded current employees, mainly from its Currency Division, and recently retired officers who had deep experience in the Bank's gold procedures. Their challenge was to capture in computer data bases the entire gold storage operations of the Bank from 1935 to 1956. This entails the account activities of 39 Bank of Canada clients -- two domestic clients, 19 other central banks, 6 international institutions and governments and 12 suspense accounts. It involves tracking approximately 565,000 "bar transactions" (i.e., any movement of a bar either physically in or out of the Bank). In the period from 1938 to 1945 alone, the Bank of Canada received 186,332 bars of gold. Some gaps exist in the Bank's records, but it is anticipated that a very high percentage of total gold transactions will be recreated. This project was thus in a position to make a valuable contribution to this report, especially in providing exact figures for the gold held in earmark accounts. The statistics in this report are principally from this source. A separate report prepared by the Bank covers the methodology and final results of the gold ledger reconstruction project and is appended to this report.

CONCLUSION

The foregoing review leads to the conclusion that a largely complete record of the Bank of Canada's wartime gold policies and practices has been preserved or is in the process of being accurately reconstructed. There is no evidence of document tampering, and those gaps that do exist may in large part be filled by reference to companion series of documents. To this researcher's satisfaction, the Bank of Canada has displayed an entirely open and cooperative attitude in making its history accessible. Much of this record will shortly be made available for public inquiry so that new minds may test the results of this report against their own reading of the documents.

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1. Assistant Deputy Governor L.P. Saint-Amour and Deputy Secretary L.P.J. Roy to D.G. Marble, November 24, 1943, BOC file 10-6, copy held in BOC Archives.

2. BOC file A17-1.

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Acknowledgements

I would like to acknowledge the assistance given me by so many of the Bank of Canada's staff in the preparation of this report. I was assured before I undertook this research that I would have full and unrestricted access to the Bank's records and personnel. Without exception, this proved to be the rule. Retired Bank of Canada employees also gave freely of their time to my inquiries. The same courtesy and candour was extended by officers of the Department of Finance. The National Archives of Canada responded with speed and efficiency to all my requests for material pertaining to gold transfers in World War II. My thanks also to the historians at the Department of Foreign Affairs and International Trade. Beyond Canada's borders, I am most grateful for the information and documents provided by the Bank of England, the Banque Nationale Suisse, the Banco de Portugal and the Sveriges Riksbank, and for the help of historians at the Records and Historical Services Group at the Foreign and Commonwealth Office. In England, special thanks to Henry Gillett and Sarah Millard of the Bank of England Archives and Gill Bennett of the Foreign and Commonwealth Office. In Sweden, special thanks to Peder Bjursten of the Sveriges Riksbank. Thanks also to Vincent Crettol and Patrick Halbeisen of the Banque Nationale Suisse in Switzerland. I certainly wish to acknowledge my debt to Professor Neville Wylie of New Hall at the University of Cambridge for his insights on Anglo-Swiss financial relations during the war, and I am grateful to Dr. Irving Abella and Dr. Edward Neufeld for their candid and constructive comments on earlier drafts of this report. All opinions contained in this report are, of course, my own.

Nearer home, I owe sincere thanks to Matthew Bellamy for his stalwart work as a research assistant and to Joan White, who so ably managed the graduate programme in history at Carleton University during my frequent absences. And at home, my wife Sandy Campbell bore history's latest incursion into our family life with her usual love and intelligence.

Duncan McDowall.

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Appendix: Reconstruction of Gold Safekeeping Records, 1935-56
Summary of the Methodology and Results

On July 28, 1997, the Bank of Canada released an interim report outlining the results of an initial search of the Bank's wartime gold records. The search was in direct response to questions raised by the Canadian Jewish Congress with respect to information contained in recently declassified U.S. government documents. These documents implied that a 1942 transfer of ownership of gold held in safekeeping at the Bank of Canada may have facilitated a separate, parallel transfer in Switzerland of looted Nazi gold between the central banks of Switzerland and Portugal.

The interim report outlined the results of the Bank's preliminary review of its gold records while recognizing that more extensive research of its records was needed to fully respond to concerns about the Bank's possible involvement in transactions related to looted Nazi gold. In mid-July, the Bank assembled a project team of current and retired officers and support staff to begin the arduous task of reconstructing the central bank's gold records for the period 1935-1956. The broad range of the reconstruction period was deemed necessary to identify and establish the proper context for gold transactions involving the Bank's 39 clients(1) in the prewar, wartime and postwar period.(2)

The principal focus of the group's research was the Bank's gold records, which include both correspondence and transaction files. The reconstruction process was possible because most of the necessary records and documents were available for retrieval from the Bank's archives and operations files. The major documents used in the reconstruction process were:

1. Accounting ledgers

2. Transaction files

3. Other supporting records (e.g., gold bar lists)

4. Correspondence files

The accounting ledgers were examined in detail. The relevant correspondence and transaction files(3) were linked back to each physical movement of gold bars received for a client's account or released from the account. A similar process was followed for book-entry (i.e., "paper") transfers of gold between two clients. Using the transaction and correspondence files as source documents, most of the 4,400 transactions processed by the Bank in the 1935-1956 period were captured in a database. However, one minor gap

period were captured in a database. However, one minor gap exists in the records for two clients[4] in 1935. The following table summarizes the number of gold safekeeping transactions processed by the Bank.

Number of Gold Safekeeping Transactions - 1935-1956

Year	Domestic Clients	Foreign Central Banks	Governments & Other Institutions	Internal Suspense Accounts	Total
1935-38	378	65	3	2	448
1939-45	751	978	189	19	1937
1946-56	1017	569	158	286	2030
Total	2146	1612	350	307	4415

Perhaps the most ambitious and daunting task undertaken by the project group was the attempt to track the movement of every gold bar physically shipped in or out of the Bank during the 22-year span of the reconstruction period. The Bank processed approximately 565,000 bar transactions[5] in the 1935-1956 period. Tracking some half-million bar transactions was further complicated because very few of the original bar lists that accompanied incoming gold shipments were still intact. The project team faced considerable challenges in trying to reestablish the integrity of the original bar lists. Nevertheless, by the end of the project, the Bank was successful in tracing more than 95% of all incoming and outgoing gold bars in the 1935-1956 time frame.

The Bank encountered another hurdle in trying to decipher the melter/assayer numerical codes on bar lists received from the Bank of England, our largest foreign safekeeping client. Despite extensive research, the Bank was unable to find a comprehensive list of melters/assayers and their associated Bank of England codes for this period. However, we have developed a list of melter/assayers who were accredited by the London Gold Market during this time frame. Further research into melter/assayer coding systems of this era may shed more light on this issue.

Two tables are attached. Table I illustrates the significant volumes of gold received from foreign clients in the immediate prewar period and during the war. Table II shows the year end position in total fine ounces for each gold safekeeping client during the project period 1935-1956. This table also shows the number of gold bars held at year-end by clients.

A more detailed report on the methodology and results is available in the Gold History Project file at the Bank.

November 1997

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1. The Bank of Canada's clients in the 1935-1956 period included: 2 domestic clients; 19 foreign central banks; 6 foreign governments and other institutions; and 12 Bank of Canada internal suspense accounts.

2. The usefulness of this reconstruction exercise is illustrated by our ability to analyse the transactions involving Prussian

gold bars" referred to in the January 12, 1956, memorandum of the Federal Reserve Bank of New York discovered in late November 1997. Our examination of reconstructed records shows that close to 95% of these bars were originally shipped to the Bank of Canada by the Bank of England in 1940 and therefore could not have been tainted by wartime activities. The reconstruction of these transactions continues.

3. The Gold History Project Team reviewed more than 300 files containing in excess of 50,000 documents, and examined over 500 ledger pages.

4. Bank of Canada and Minister of Finance gold account records for the first six months of the Bank's operations (March 11 - September 11, 1935) have not been located despite searches in both Bank of Canada and the National Archives of Canada.

5. A "bar transaction" is generally defined as the *physical* movement of *one* gold bar "in" or "out" of a client's safekeeping account. "Book-entry" transfers of ownership between two clients did not involve gold bars being shipped in or out of the Bank and thus were not included. Given the project's focus on bars shipped from Europe, we also did not track some 63,000 bars purchased by the Minister of Finance from the Royal Canadian Mint in the 1950-56 period.

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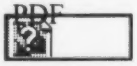
GOLD RECEIVED FOR FOREIGN EARMARKED ACCOUNTS 1938-1945

YEAR	NUMBER OF BARS	BARS (fine ozs)	COINS** (fine ozs)	TOTAL (fine ozs)
1938	6,924	2,751,863.068		2,751,863.068
1939	40,885	16,494,059.529	520.294	16,494,579.823
1940	134,798	53,798,785.675	8,101,025.206	61,899,810.881
1941	3,198	1,192,663.370	189,339.911	1,382,003.281
1942			51.014	51.014
1943				000
1944	525	214,186.961	67.207	214,254.168
1945	2	811.383	29.294	840.677
GRAND TOTAL	186,332	74,452,369.986	8,291,032.926	82,743,402.912

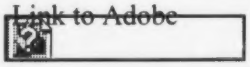
** Includes miscellaneous gold items such as gold buttons and gold clips
table>

Table II

Table II shows the year-end position in total fine ounces
and number of gold bars
for each gold safekeeping client during the project
period 1935-1956.
Table II is available as a PDF file.



To access Table II you need an Adobe Acrobat reader,
which is available without charge by clicking here:



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1941	3,198	1,192,663.370	189,339.911	1,382,003.281
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